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THE WHITE HOUSE
WASHINGTON 2/15/77

Stu Eizenstat -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

Re: Domestic Policy Staff Memo
of 2/11/77 re Budget

THE WHITE HOUSE
WASHINGTON

TO STU

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN.

February 11, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT AND DOMESTIC POLICY STAFF Stu

SUBJECT: Budget

Attached are our preliminary comments to the OMB budget submission which we received for the first time last night. Our memo attempts briefly to provide policy-oriented analysis and recommendations. Because we did not receive the final OMB memorandum which is now in your hands until roughly an hour and a half before you left Washington, we have responded to the latest available draft. We will update our memo by Monday, based on the latest submission by OMB to you.

By arrangement with Bert Lance and Bo Cutter, our Domestic Policy Staff has sat in on all OMB-Agency discussions. This unprecedented cooperation shown by OMB has permitted the resolution of many budget items without your having to become involved. good

In addition to the general comments on the project issues presented in the last OMB budget submission we received last night, you will find a more detailed discussion describing the hospital cost containment program which is the legislative proposal necessary to achieve the budget reductions in Medicaid and Medicare which are found in OMB's revisions to the Ford budget; those reductions presuppose the type of legislation described in that memorandum.

ARMY CORPS OF ENGINEERS AND INTERIOR BUREAU OF RECLAMATION

Issue: Should the FY 1978 request for funds be withdrawn for controversial water resource construction projects?

Discussion: OMB will be recommending deletion of funding in FY 1978 for some unsound Bureau of Reclamation and Corps of Engineers projects. OMB will list additional unsound projects, but recommend against deletion because of perceived political obstacles.

A more comprehensive approach could be taken:

- A Budget decision deleting funds for 30 unsound projects but characterizing the deletion as suspension of the projects pending policy and project-by-project review. CEQ prepared this list and OMB staff agrees that all listed projects are unsound. It is our judgment that funding some but not other unsound projects would undermine the credibility of your reform commitment, would be viewed as too political, and would invite additional arm-twisting. agree

- Simultaneous initiation of full water policy reforms. A complete policy reform will help alleviate the charge that you are "singling out" projects for negative action. The policy reform work would include:

  1. Project re-evaluations

     -- OMB/CEQ develop criteria for project evaluation
     -- agencies use criteria to re-evaluate projects

  2. Policy review: OMB/CEQ coordinate inter-agency recommendations on:

     -- consistent cost-sharing policy
     -- uniform applicability of plan formulation and evaluation standards
     -- uniform use of an interest rate reflecting the cost of capital
     -- expanded use of non-structural alternatives for flood damage reduction, water conservation and soil conservation

Let Interior, Ag & EPA sign off on projects

-- long-range water policy initiatives

3. Special drought initiative

- Consideration of suspension of ten of the 30 projects in FY 1977 because of the particular problems and major FY 1977 construction activities involved (e.g. the Garrison Project, which the Canadian government has asked us to suspend). This action should be analyzed by Legal Counsel. Preliminary analysis indicates you have sufficient authority.

- Indicating your intention to veto the water resources appropriations bill if it deviates significantly from your Budget.

- You personally should be prepared to advise Congressional leaders and agency heads of your intentions in this area, and to enlist support wherever possible.

Attached is a chart showing the 30 projects recommended for deletion in FY 1978. The ten candidates for suspension are marked with an asterisk. A background memorandum has also been prepared, but due to its length has not been appended here.

and State	and Date	Project Purpose	-Authoriz. @% -Marginal @%		Obli-gations	Appro-priation Request	Complete after FY 78	Total Federal Cost	Complete: -Project Total -Construction	Adverse Environmental Impacts and Other Notations
*Tenn.-Tombigbee Waterway Alabama Miss.	Rivers & Harbors Act 1946	navigation area redev. recreation fish & wld.	1.1 0.8	@3-1/4 @6-3/8	101.1	157.0	979.4	1,410.0	10% 5%	Loss of over 300 miles of scenic river and wildlife habitat, and up to 70,000 acres of forest and agricultural lands. Major adverse dredge and fill impacts.
Upper Susitna River Basin Alaska	W.R. Devel Act 1976	hydropower area redev. recreation fld control	1.3	@6-3/8	0.0	0.0	1,668.4	1,668.4	0% 0%	Destruction of 82 miles of Susitna River; flooding of over 50,000 acres of wilderness, big game habitat, and fisheries; loss of recreation potential; water quality problems.
Cache Basin Arkansas	Flood Control Acts 1950; W.R. Devel Act 1974	fld control area redev. fish & wld.	3.9 2.2	@3-1/4 @6-3/8	5.2	2.0	83.8	93.2	2% 1%	Channelization of 232 miles of river; loss of up to 170,000 acres of productive hardwood forest and prime fish, waterfowl and wildlife wetlands habitat; creation of downstream flood and water quality problems.
*Dry Creek (Warm Springs) Calif.	Flood Control Act 1962	fld control wtr supply recreation area redev. fish & wld.	1.1 0.86	@3-1/8 @6-3/8	2.3	0.6	161.3	206.0	31% 10%	Loss of 17,000 acres of productive agricultural land, fisheries and wildlife habitat. Degradation of water quality; possible mercury contamination. Dam site on geologic fault.
New Melones Calif.	Flood Control Act 1942/62	Multi-purpose: hydropower fld control irrigation	1.5 1.4	@3-1/8 @6-3/8	61.7	68.0	27.4	306.0	56% 50%	Inundation of 10,000 acres of land and 16 miles of Stanislaus River, with loss of white-water boating, riverside hiking, caving; elimination of trout fishery.
*Central & South Florida Florida	Flood Control Act 1965	fld control wtr supply	5.1 2.1	@2-1/2 @6-3/8	6.3	8.0	321.8	559.0	41% 38%	Disruption of natural water regime in several million acres; extensive loss of wetlands and wildlife; flooding around Lake Okeechobee; pollution of Everglades National Park.
R.B. Russell Dam (Tr. Shoals) Ga. S.C.	Flood Control Act 1966	Multi-purpose: hydropower recreation area redev.	2.2 1.3	@3-1/4 @6-3/8	10.4	21.0	205.9	248.0	9% 1%	Inundation of over 26,000 acres of land and 29 miles of the last undeveloped reach of the Savannah River in the Piedmont Plateau; elimination of fish, wildlife, timber, and recreational resources.
Hillsdale Lake Kansas	Flood Control Act 1954	wtr supply fld control wtr quality fish & wld	1.8 1.1	@3-1/4 @6-3/8	8.6	14.0	24.6	53.7	30% 4%	Flooding of over 4500 acres of productive agricultural lands and 12 miles of free-flowing stream; adverse impacts on downstream wetlands; relocation of 92 families.
Paintsville Lake Kentucky	Flood Control Act 1965	recreation wtr quality fld control area redev.	1.2 1.12	@3-1/4 @6-3/8	3.7	7.3	23.3	41.1	27% 4%	Conversion of over 12,000 acres of farm and forest land to project purposes; flooding of 30 archeological sites and up to 4.4 million tons of recoverable coal reserves; water quality problems from potential oil seepage.
Yatesville Lake Kentucky	Flood Control Act 1965	recreation fld control wtr quality area redev.	1.2 0.68	@3-1/4 @6-3/8	4.2	7.2	38.7	56.9	19% 2%	Flooding of 6,000 acres of productive agricultural and forest land; water quality problems expected from oil spills, industrial and domestic waste sources - project designed only for 25 year flood, rather than usual 100-year level.
*Atchafalaya Basin La.	Flood Control Acts '28, '34, '36, '38, '41, '46, '50, '54	fld control navigation	10.6 10.5	@6-3/8 @6-3/8	35.0	28.0	576.2	903.0	33% 30%	Major disruption of largest inland wetlands ecosystem in U.S. Major loss of wildlife, timber and fisheries resources; downstream adverse impacts include flooding, sedimentation and dredging.
Atchafalaya River & Bayous Chene, Boeuf & Black	R&H Act 1968 WRD Act 1974	navigation area redev. fld control	2.3 2.7	@3-1/4 @6-3/8	4.5	5.1	4.9	20.3	50% 50%	Destruction of over 7,000 acres of Louisiana's most productive coastal wetland, adversely affecting shrimp, oysters, menhaden, and other commercial fisheries. Dredging will degrade existing water quality.
*Red River Waterway Miss. to Shreveport La.	R&H Act 1968	navigation fld control area redev.	1.06 0.9	@3-1/4 @6-3/8	18.0	26.0	817.8	905.0	7% 2%	Conversion of nearly 300 miles of natural free-flowing river into a navigation channel; loss of over 5,000 acres of wetlands and wildlife habitat. 43,100 acres of agricultural or forest lands would be lost or altered.
Dickey-Lincoln School Lakes Maine	Flood Control Act 1965	hydropower recreation	2.6 2.1	@3-1/4 @6-3/8	2.0	1.0	533.0	533.0	0%	Destruction of over 50 miles of scenic St. John River and tributaries, flooding over 80,000 acres of timber-producing forest and big-game wildlife habitat; loss of prime white-water canoeing and trout fishing.
*Maramec Park Lake Mo.	Flood Control Act 1938	fld control recreation wtr supply	1.9 1.3	@3-1/4 @6-3/8	9.5	10.0	78.7	124.0	22% 5%	Destruction of 47 miles of free-flowing scenic recreational stream and 17,600 acres of bottomland hardwood forest and associated fish and wildlife habitat. Caves and porous rocks at dam site raise safety concerns.
Lukfata Lake Okla.	Flood Control Act 1958	fld control wtr supply recreation	1.3 1.01	@3-1/4 @6-3/8	0.6	0.2	29.4	31.5	6% 0%	Inundation of 18 miles of river and over 6,000 acres of land, including important wildlife habitat and bottomland hardwood forest. Glover Creek is the last significant free-flowing stream in Oklahoma and Arkansas mountains.
Applegate Lake Oregon Calif.	Flood Control Act 1962, WRD Act 1974	fld control recreation fish & wld	1.4 0.49	@3-1/4 @6-3/8	3.5	7.4	60.6	75.5	10% 0%	Inundation of 988 acres of agricultural land and 8 miles of free-flowing river. Destruction of 1500 acres of wildlife habitat, elimination of sport fish migration; potential health threat from mercury at lake site
Trinity	[illegible]	[illegible]								

elimination of trout fishery.

* Central & South Florida Florida	Flood Control Act 1965	fld control wtr supply	5.1 2.1	@2-1/2 @6-3/8	6.3	8.0	321.8	559.0	41% 38%	Disruption of natural water regime in several million acres; extensive loss of wetlands and wildlife; flooding around Lake Okeechobee; pollution of Everglades National Park.
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Hillsdale Lake Kansas	Flood Control Act 1954	wtr supply fld control wtr quality fish & wld	1.2 1.1	@3-1/4 @6-3/8	8.6	14.0	24.6	35.7	30% 4%	Flooding of over 4500 acres of productive agricultural lands and 12 miles of free-flowing stream; adverse impacts on downstream wetlands; relocation of 92 families.
Paintsville Lake Kentucky	Flood Control Act 1965	recreation wtr quality fld control area redev.	1.2 1.12	@3-1/4 @6-3/8	3.7	7.3	23.3	41.1	27% 4%	Conversion of over 12,000 acres of farm and forest land to project purposes; flooding of 30 archeological sites and up to 4.4 million tons of recoverable coal reserves; water quality problems from potential oil seepage.
Yatesville Lake Kentucky	Flood Control Act 1965	recreation fld control wtr quality area redev.	1.2 0.68	@3-1/4 @6-3/8	4.2	7.2	38.7	56.9	19% 2%	Flooding of 6,000 acres of productive agricultural and forest land; water quality problems expected from oil spills, industrial and domestic waste sources - project designed only for 25 year flood, rather than usual 100-year level.
* Atchafalaya Basin La.	Flood Control Acts '28, '34, '36, '38, '41, '46, '50, '54	fld control navigation	10.6 10.5	@6-3/8 @6-3/8	35.0	28.0	576.2	903.0	33% 30%	Major disruption of largest inland wetlands ecosystem in U.S. Major loss of wildlife, timber and fisheries resources; downstream adverse impacts include flooding, sedimentation and dredging.
Atchafalaya River & Bayous Chene, Boeuf & Black	R&H Act 1968 WRD Act 1974	navigation area redev. fld control	2.3 2.7	@3-1/4 @6-3/8	4.5	5.1	4.9	20.3	50% 50%	Destruction of over 7,000 acres of Louisiana's most productive coastal wetland, adversely affecting shrimp, oysters, menhaden, and other commercial fisheries. Dredging will degrade existing water quality.
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Dickey-Lincoln School Lakes Maine	Flood Control Act 1965	hydropower recreation	2.6 2.1	@3-1/4 @6-3/8	2.0	1.0	533.0	533.0	0%	Destruction of over 50 miles of scenic St. John River and tributaries, flooding over 80,000 acres of timber-producing forest and big-game wildlife habitat; loss of prime white-water canoeing and trout fishing.
* Meramec Park Lake Mo.	Flood Control Act 1938	fld control recreation wtr supply	1.9 1.3	@3-1/4 @6-3/8	9.5	10.0	78.7	124.0	22% 5%	Destruction of 47 miles of free-flowing scenic recreational stream and 12,600 acres of bottomland hardwood forest and associated fish and wildlife habitat. Caves and porous rocks at dam site raise safety concerns.
Lukfata Lake Okla.	Flood Control Act 1958	fld control wtr supply recreation	1.3 1.01	@3-1/4 @6-3/8	0.6	0.2	29.4	31.5	6% 0%	Inundation of 18 miles of river and over 6,000 acres of land, including important wildlife habitat and bottomland hardwood forest. Glover Creek is the last significant free-flowing stream in Oklahoma and Arkansas mountains.
Applegate Lake Oregon Calif.	Flood Control Act 1962, WRD Act 1974	fld control recreation fish & wld	1.4 0.49	@3-1/4 @6-3/8	3.5	7.4	60.6	75.5	10% 0%	Inundation of 988 acres of agricultural land and 8 miles of free-flowing river. Destruction of 1500 acres of wildlife habitat, elimination of sport fish migration; potential health threat from mercury at lake site.
Trinity River Texas	R&H Act 1965	fld control recreation wtr supply	1.7 N.A.	@3-1/4 @6-3/8	0.8	0.9	2,010.0	2,010.0	0% 0%	Conversion of 548 miles of natural meandering river into a 363 mile channel. Disruption of coastal marshes and estuaries; extensive losses of fish and wildlife.
			TOTALS		279.4	363.7	7,645.2	9,246.6		

*candidate for suspension in FY1977

February 1977
CEQ

QUESTIONABLE WATER RESOURCES PROJECTS -- DEPARTMENT OF INTERIOR, BUREAU OF RECLAMATION

($ in millions)

Project Name and State	Author-ization and Date	Project Purpose	Benefit/ Cost Ratio: -Authoriz. @% -Marginal @%	FY 77 obli-gations	Ford FY 78 Budget Appro-priation Request	Federal Cost to Complete after FY 78	Estimated Total Federal Cost	Estimated Percent Complete Project Total	Adverse environmental impacts and other notations
* Central Arizona Project Arizona	PL 90-537 1968	Irrigation M&I water power fld control fish & wld.	1.6 @ 3-3/8 1.4 @ 6-3/8	123.1	104.0	1,160.0	1,700.0	6%	Inundation of 18,000 acres of land and 50 miles of stream; flooding National Forest and Indian lands. Loss of fisheries and wildlife habitat; increased salinity in Colorado River. Safety of Orme dam being questioned.
* Auburn-Folsom South Central Valley Proj. California	PL 89-161 1965	Irrigation fish & wld. M&I water recreation	1.61 @ 3-1/8 1.3 @ 6-3/8	37.3	39.7	806.0	1,100.0	16%	Elimination of 43 miles of the American River, 17 archeological sites, 22 historic sites; inundation of 10,000 acres of wildlife habitat; reduced flows would harm downstream fish and wildlife; safety of Auburn Dam is being questioned.
San Felipe Division CVP California	PL 90-72 1967	Irrigation M&I water	1.8 @ 3-1/8 1.41 @ 6-3/8	9.7	20.6	153.1	189.4	7%	Conversion of 13,000 acres of existing pasture and farmland into irrigated cropland, reducing wildlife populations, altering salinity in the Delta with effects on fisheries resources; stimulation of urban expansion.
Fruitland Mesa Colorado	PL 88-568 1964	Irrigation recreation fish & wld.	0.77 @ 3-1/8 0.6 @ 6-3/8	3.3	7.7	73.7	86.3	3%	Inundation of 584 acres of land and 4.5 miles of stream. Increased salinity and decreased flows in Colorado River; loss of wildlife habitat, mule deer, and elk. Conversion of grazing land to marginal agricultural land.
Narrows Unit Colorado	PL 91-389 1970	Irrigation recreation fld control fish & wld.	1.4 @ 3-1/4 0.8 @ 6-3/8	4.9	9.7	129.2	145.5	2%	Inundation of 15,000 acres of agricultural and wildlife lands; loss of waterfowl, wildlife, over 40 historical and archeological sites, and 15 miles of South Platte River. Potential eutrophication of reservoir, seepage problems.
Savery-Pot Hook Colorado Wyoming	PL 88-568 1964	Irrigation fish & wld. fld control recreation	0.99 @ 3-1/8 0.7 @ 6-3/8	2.3	6.0	60.4	70.5	2%	Increased salinity and reduction of flows of Colorado River and tributaries. Loss of over 1,400 acres of wildlife habitat and 10 miles of stream; possible extinction of two endangered fish species; negative economic benefits.
North Loup* Division Nebraska	PL 92-514	Irrigation recreation fish & wld.	1.6 @ 3-1/4	1.2	7.0	114.4	123.5	2%	Elimination of over 6,200 acres of wildlife and terrestrial habitat and 16 miles of river; over 4,000 acres of mud flats would be exposed intermittently. Loss of wildlife; eutrophication in reservoirs; increase in salinity and associated river pollution.
O'[illegible] Unit* Nebraska	PL [illegible] 1972	[illegible] recreation fish & wld.	[illegible] @ 3-1/4 0.9 @ 6-3/8	1.5	[illegible]	[illegible]	[illegible]	1%	Inundation of [illegible] acres of farm and ranchland, plus 19 miles of scenic river and tributaries; loss of current recreational benefits; reduction of several rare bird species; degradation of downstream water quality.
* Garrison Diversion* Unit North Dakota, South Dakota	PL 89-108 1965	Irrigation fish & wld M&I water recreation	1.67 @ 2-7/8 NA @ 6-3/8	24.8	18.7	414.5	562.0	19%	Loss of at least 73,000 acres of productive land; degradation of water quality in three rivers; disruption of 8 National Wildlife Refuges; large energy requirements; displacement of family farmers; increased soil erosion and salinization.
Oahe Unit * South Dakota	PL 90-453 1968	Irrigation fish & wld. M&I water recreation	1.6 @ 3-1/8 1.37 @ 6-3/8	18.6	17.0	397.3	457.2	5%	Loss of over 90,000 acres of productive land; channelization of 120 miles of natural river; destruction of 10,000 acres of wetlands; increased downstream salinity and flooding; adverse effects on rare and endangered species
Palmetto Bend Texas	PL 90-562 1968	M&I water recreation fish & wld. hwy improvement	2.4 @ 3-1/8 3.87 @ 6-3/8	19.2	12.1	10.6	73.9	49%	Inundation of over 11,000 acres of wildlife habitat and 47 miles of streams; reduction of downstream estuarine productivity including commercial and sport fisheries; adverse impacts on several endangered species.
* Central Utah Project, Bonneville Unit Utah	PL 84-485 1956	Irrigation M&I water power fish & wld. recreation	1.3 @ 2-1/2 0.9 @ 6-3/8	24.6	32.0	598.6	733.0	16%	Flooding of 22,000 acres of range and cropland; drainage of 25,000 acres of marsh and wildlife habitat; destruction of 200 miles of high quality streams, associated trout fisheries; downstream flow reduction; increased Colorado River salinity.
			TOTALS:	$270.7	$282.6	$ 4,082.7	$ 5,417.7		(12 Bureau of Reclamation Projects)
			GRAND TOTAL:	$550.4	646.3	11,727.9	14,664.3		(18 Corps of Engineers Projects and 12 Bureau of Reclamation Projects).

* Unit of Pick-Sloan Missouri Basin Program.

* candidate for suspension in FY 1977

QUESTIONABLE WATER RESOURCES PROJECTS

February 1977
CEQ

Summary Sheet-Adverse Impacts and Policy Conflicts

CORPS OF ENGINEERS		eliminates substantial agric. and/or forest production	destroys substantial wildlife habitat	eliminates significant commercial and/or sport fisheries	degrades existing water quality	induces undesirable floodplain development	eliminates existing or potential recreational uses	adversely affects rare or endangered species	may increase downstream flooding	significant displacement of area residents	destroys significant historic or archeologic sites	adversely affects national park, wilderness areas or scenic rivers	potential safety or other structural problems
Tennessee-Tombigbee	Ala. Miss.	X	X	X	X		X	X		X	X	X	
Upper Susitna River Basin	Alsk.	X	X	X	X		X	X				X	
Cache Basin	Ark.	X	X	X	X		X		X			X	
Dry Creek (Warm Springs)	Cal.	X	X	X	X	X	X				X		X
New Melones Dam	Cal.		X	X		X	X				X	X	
Central & Southern Florida	Fla.	X	X	X	X		X					X	
R.B. Russell Dam	Ga. S.C.	X	X	X	X		X			X	X	X	
Hillsdale Lake	Kan.	X	X			X				X		X	
Paintsville Lake	Ky.	X	X	X	X	X	X				X		
Yatesville Lake	Ky.	X	X	X	X	X	X						
Atchafalaya Basin	La.	X	X	X	X	X			X				
Atchafalaya River & Bayous Chene,	La.		X	X	X		X						
Red River Waterway: Miss. to Shreveport	La.	X	X	X		X	X		X				
Dickey-Lincoln School Lakes	Me.	X	X	X		X	X					X	
Meramec Park Lake	Mo.	X	X			X	X	X			X	X	X
Lukfata Lake	Okla.	X	X		X	X		X				X	
Applegate Lake	Ore. Cal.	X	X	X	X		X	X					
Trinity River	Tex.	X	X	X	X			X			X		
BUREAU OF RECLAMATION													
Central Arizona Project	Ariz.	X	X	X	X		X	X		X	X	X	X
Auburn-Folsom South CVP	Cal.		X	X			X				X		X
San Felipe Division CVP	Cal.		X	X	X						X		
Fruitland Mesa	Colo.		X	X	X								
Narrows Unit	Colo.	X	X	X	X	X				X	X		
Savery-Pot Hook	Colo. Wyo.		X	X	X			X			X		
North Loup Division	Neb.		X		X		X	X					
O'Neill Unit	Neb.	X	X	X	X	X	X	X				X	
Garrison Diversion	N.D. S.D.	X	X		X		X	X	X	X	X	X	X
Oahe Unit	S.D.	X	X		X			X	X	X			
Palmetto Bend	Tex.	X	X	X	X			X					
Central Utah Project Bonneville Unit	Utah	X	X	X	X		X					X	

February 1977
CEQ

QUESTIONABLE WATER RESOURCES PROJECTS

Summary Sheet-Adverse Impacts
and Policy Conflicts

CORPS OF ENGINEERS		eliminates substantial agric. and/or forest production	destroys substantial wildlife habitat	eliminates significant commercial and/or sport fisheries	degrades existing water quality	induces undesirable floodplain development	eliminates existing or potential recreational uses	adversely affects rare or endangered species	may increase downstream flooding	significant displacement of area residents	destroys significant historic or archeologic sites	adversely affects national park, wilderness areas or scenic rivers	potential safety or other structural problems
Tennessee-Tombigbee	Ala. Miss.	X	X	X	X		X	X		X	X	X	
Upper Susitna River Basin	Alsk.	X	X	X	X		X	X				X	
Cache Basin	Ark.	X	X	X	X		X		X			X	
Dry Creek (Warm Springs)	Cal.	X	X	X	X	X	X				X		X
New Melones Dam	Cal.		X	X		X	X				X	X	
Central & Southern Florida	Fla.	X	X	X	X		X					X	
R.B. Russell Dam	Ga. S.C.	X	X	X	X		X			X	X	X	
Hillsdale Lake	Kan.	X	X			X				X		X	
Paintsville Lake	Ky.	X	X	X	X	X	X				X		
Yatesville Lake	Ky.	X	X	X	X	X	X						
Atchafalaya Basin	La.	X	X	X	X	X			X				
Atchafalaya River & Bayous Chene,	La.		X	X	X		X						
Red River Waterway: Miss. to Shreveport	La.	X	X	X		X	X		X				
Dickey-Lincoln School Lakes	Me.	X	X	X		X	X					X	
Meramec Park Lake	Mo.	X	X			X	X	X			X	X	X
Lukfata Lake	Okla.	X	X		X	X		X				X	
Applegate Lake	Ore. Cal.	X	X	X	X		X	X					
Trinity River	Tex.	X	X	X	X			X			X		
BUREAU OF RECLAMATION													
Central Arizona Project	Ariz.	X	X	X	X		X	X		X	X	X	X
Auburn-Folsom South CVP	Cal.		X	X			X				X		X
San Felipe Division CVP	Cal.		X	X	X						X		
Fruitland Mesa	Colo.		X	X	X								
Narrows Unit	Colo.	X	X	X	X	X				X	X		
Savery-Pot Hook	Colo. Wyo.		X	X	X			X			X		
North Loup Division	Neb.		X		X		X	X					
O'Neill Unit	Neb.	X	X	X	X	X	X	X				X	
Garrison Diversion	N.D. S.D.	X	X		X		X	X	X	X	X	X	X
Oahe Unit	S.D.	X	X		X			X	X	X			
Palmetto Bend	Tex.	X	X	X	X			X					
Central Utah Project Bonneville Unit	Utah	X	X	X	X		X					X	

ENVIRONMENTAL PROTECTION AGENCY -- SIZE OF PERSONNEL INCREASE

Issue: EPA has requested 1,992 additional positions over the January budget which would bring the Agency total to 11,690. OMB recommends an addition of only 110 positions on the grounds that (1) the new positions will result in additional Federal regulatory actions "without any reduction in current lower priority areas", (2) some new positions (130) were added in the January budget to cover EPA's two new programs (toxic substances and solid waste), (3) EPA received 3,700 new positions when it was created, and (4) the agency has a 15% annual attrition rate (1,400 positions) which will provide management flexibility.

Discussion: The size of the EPA staff increase has become a highly visible issue, both symbolically and on the merits. Environmental groups look to this decision as an indicator of your environmental commitment.

- Adoption of the OMB recommendation will require two substantial cuts in EPA programs:

  100 people from water enforcement and 134 people from research and development. EPA's ability to enforce water pollution control requirements is already strained and the mid-1977 deadline for compliance with Best Practicable Treatment requirements will increase enforcement requirements. During the campaign you commented on the need for increased staffing and funding of EPA's water enforcement efforts. The R & D program is highly visible and has also been roundly criticized as inadequate. Substantial reductions in force, or the closing of two laboratories, or both, will be required to meet this mark. Any personnel change in the laboratory structure of staffing will draw considerable political fire from the Congress.

- EPA argues that staff allowances have not kept pace with increases in legislative requirements. Since 1972, seven new statutes or major revisions of existing law have been enacted, yet EPA has received only 347 new staff since then.

- OMB states that EPA can meet many of the proposed program changes through reprogramming and attrition. The Agency's reprogramming record is almost unequalled and EPA argues that additional reprogramming is not possible because of skill mix and geographical problems.

- The sewage treatment construction grants program, for which EPA requests a minimum of 300 additional persons, is now almost the size of the Highway Trust Fund, yet has about one-fifth the staff resources. The January budget contains a ten-year commitment to $4.5 billion in annual funding for this program, contingent on adoption of certain reforms, which the EPA agrees are needed. EPA has expressed concern, as has the GAO, about its ability to maintain the fiscal integrity of this program (audits, inspections, and grant review) unless additional staff are provided. I believe this concern is legitimate, and an understaffed grant program of this size is a potential source of embarrassment to the Administration.

- The toxic substances and the resource conservation and recovery program are in the early stages of implementation. These will be the only two EPA programs for which the Carter Administration will have full responsibility. Other EPA programs are well established. While both of these programs have enormous potential for environmental improvement, their success will be dependent on sufficient recruitment flexibility to ensure the proper skill mix on the staff. In general, EPA suffers from a lack of adequate staffing in economics, toxicology, fish and wildlife biology. Drawing on existing Agency resources to staff these two programs will tie the Administrator's hands in making these programs work.

Recommendation: I would recommend an addition of 850 people for EPA broken down roughly as follows:

164 - to restore cuts in the R & D program
100 - to restore cuts in the water enforcement program
300 - for construction grants
286 - for toxic substances, resource recovery, air enforcement, effluent guidelines, and other EPA should be permitted to begin hiring toward this increase in FY 1977.

ENVIRONMENTAL PROTECTION AGENCY -- FY 1977 FUNDING FOR SEWAGE TREATMENT PLANTS

Issue: At least 11 states will exhaust construction grant funds allotted under the Federal Water Pollution Control Act. While it is generally agreed that a FY 1977 supplemental is needed to keep the program going in these states, EPA and OMB differ on the size of the supplemental. EPA recommends budget authority of $4.5 billion; OMB prefers a $400 million supplemental.

Discussion: The Ford budget commits to a $4.5 billion per year program for 10 years, but only after reforms are enacted. Under the OMB scheme, the ten year program would begin in FY 1978. EPA would like to begin the program in FY 1977, since the issue will be addressed in Congress this year any way. OMB argues that a FY 1977 supplemental of $4.5 billion (1) will increase outlays in '79, '80 and '81, (2) may permit funding of projects which would become ineligible under the reforms, and (3) may delay the reform efforts in Congress. It is worth noting, however, that:

- The actual FY 1977 outlays are almost identical under either plan.
- The Congress is likely to authorize either $5.0 or $4.5 billion for FY 1977. Legislation which failed last year authorized $5 billion, and this was not a point of contention in either the House or Senate. If Congress is going to provide the larger sum anyway, you may as well share the credit.
- The out-year increase in outlays if $4.5 billion is authorized in FY 1977 is small relative to the overall size of the program (0.4%, 0.6%, and 3.1% for FYs 1979, 1980, and 1981 respectively.)
- EPA fears that failure to make the larger sum available may cause states, which under present plans would not exhaust their allotments, to adopt a faster obligation schedule in order to secure a share of the $400 million. If the larger sum is available, no such pressures will result.

- EPA fully supports the reform program and with solid Administration support for reform, it is unlikely that the size of FY 1977 funding will affect Congressional action.

- Allocating the $400 million among a few states will cause both administrative and political problems for EPA.

Recommendation: That $4.5 billion be authorized in FY 1977 since the Congress will probably do this anyway and the impact on actual 1977 outlays is minimal.

ENVIRONMENTAL PROTECTION AGENCY -- FUNDING FOR CONSOLIDATED GRANTS

Issue: The current EPA categorical grant program, funded at $125 m in FY77, covers four program areas: air, water, drinking water, and pesticides. OMB recommends consolidation of these programs into one state block grant, and adds two new programs, solid waste and toxic substances, to the package. OMB recommends a $13 million increase over the FY 1977 base, bringing the total to $138 million. EPA feels this total is too low, given normal inflationary increases and the addition of new state responsibilities in solid waste and toxic substances areas, EPA also believes that increases beyond the cost of inflation are needed to cover new activities in the drinking water, air, and water portions of the older categorical programs.

Discussion: The success of many of EPA's programs depends in large measure on State acceptance of substantial planning, permitting, review, and enforcement functions. Some states are now beginning to balk at assuming new responsibilities unless more money is provided. Certainly a consolidation of existing categorical grants will be more difficult unless additional funds are granted. Several factors are important in determining the appropriate increase for this program:

- The recently enacted Resource Conservation and Recovery Act authorizes $100 million for State grants. Solid and hazardous waste management is traditionally a state and local responsibility, but the addition of federal standards will require considerably increased programs. The OMB allowance would provide only $7 million for state activity in this area -- considerably below the level of assistance anticipated by the States.

- Like the solid waste program, state participation in drinking water programs, particularly in enforcement, is critical to the success of the program. The drinking water act calls upon the states to assume primary enforcement responsibility which they may not be willing to do at current funding levels.

- State responsibilities in the air and water areas are increasing. Small source review, and implementation of non-degradation and non-attainment policies under the Clean Air Act

- will place additional burdens upon the states. Permit issuance, and enforcement responsibilities in the water area are increasing as the July 1, 1977 deadline requiring use of best practicable treatment technology draws near.

- The $13 million increase recommended by OMB (10% of the base) will do little more than cover inflation for the existing state programs.

Recommendation: That an additional $46 million be added to the consolidated state grant program to cover increased responsibilities in the water supply, air and water areas, and to provide funds for the new solid waste and toxic substances programs. The grant breakdown would read as follows:

$125.	(FY 1977 base)
13.	(for inflation)
26.	(solid waste and toxic substances)
5.	(water supply)
10.	(air and water)
179	TOTAL

ENVIRONMENTAL PROTECTION AGENCY -- LEGISLATIVE OR ADMINISTRATIVE APPROACH TO CONSOLIDATED GRANTS

Issue: Both EPA and the OMB agree that consolidated grants to state programs, rather than the current catergogical approach is sensible. The Agency and OMB differ on the desirability of approaching this legislatively or administratively.

Discussion: Senator Muskie has already questioned EPA's legal authority to proceed administratively with consolidation. Even if EPA does have the legal right to consolidate without legislation, politics may dictate that the Agency seek legislation. It is not absolutely necessary to make a decision on this question in the context of the budget. The Administrator-designate will probably want to have an opportunity to consult further with the Congress before a decision is made.

Recommendation: That no decision be made now on the legislative versus administrative approach. The budget can contain a line item for consolidation, but with a footnote that this is still under review.

ENVIRONMENTAL PROTECTION AGENCY -- FUNDING FOR STATE WATER QUALITY PLANNING

Issue: The 1972 Federal Water Pollution Control Act authorized $300 million for areawide water quality planning. EPA has already spent $200 million of these funds, and the remaining monies have been tied up in a court suit relating to an earlier Nixon impoundment of these funds. EPA has requested restoration of the $137 million now tied up in court. OMB recommends against this funding on the grounds that (1) $200 million has already been spent, (2) the water quality impacts of the additional monies are questionable, and (3) the court may find that the agency should receive the $137 million in which case $274 million, double the original amount would be available.

Discussion: It is clear that the monies already spent on this program have not been used as effectively as they could have been. Nevertheless, the availability of these funds is a hot political issue. Had part of the original $300 million appropriation not been impounded, these monies would have already been available to the States. You should be aware that the Administrator-designate believes that, if additional money is provided, it could be redirected and become an important tool in bringing some of the currently disjointed water quality programs together. These funds are also important in planning for control of non-point sources of water pollution. The question of a double appropriation should the Court of Appeals rule in EPA's favor (or the appeal be dropped) could be easily handled by requesting deletion of these funds at that time.

Recommendation: That $100 million of the $137 million request for areawide planning be granted such that the entire $300 million authorized and appropriated by the Congress is made available to State and local planning units.

ENVIRONMENTAL PROTECTION AGENCY -- WASTE TREATMENT FACILITY LOAN GUARANTEE FUNDS

Issue: Should the Administration request funds to implement legislation enacted last fall providing for Federally-guaranteed loans for the non-Federal share of wastewater treatment facilities?

Discussion: OMB does not believe that the program should be implemented because no widespread need has been demonstrated for this assistance, and OMB is reviewing the role of the Federal Financing Bank which would be the lender in this case. EPA has requested budget authority of $50 million and outlay of $5 million to implement this statute. The Agency would be willing to tighten the criteria for eligibility and lending rates to ensure that this is a program of last recourse. A number of cities have had problems in meeting the 25% matching share required for State and local governments to obtain wastewater construction grants. Buffalo is the principal case in point, and the legislation was directed toward its needs. This provision was enacted with a separate vote on the House floor, and a failure to implement it may cause considerable political controversy.

Recommendation: Fund the program at the levels requested by EPA, but direct the EPA Administrator to develop strict criteria for lending rates and eligibility.

FEDERAL ENERGY ADMINISTRATION

Issue: OMB and FEA agree on the need to expand the petroleum reserve program. They disagree, however, on the rate and cost of expansion. FEA's strategy would add $2.6 billion in 1978 for a total of $4.3 billion; OMB would add $.7 billion for a total program of $2.4 billion in 1978.

Comment: The following table displays OMB and FEA alternatives for accelerating the petroleum storage programs:

	FEA ACCELERATED PROPOSAL	OMB RECOMMENDATION
Size of System	550 million barrels (MB) (facilities to expand to 750 MB)	500 MB
Implementation Schedule	Store 250 MB by 1977; 550 MB by Dec., 1980.	Attempt to store 200 MB by Dec., 1978; 475 MB by Dec., 1980
Total Cost	$10.1 billion	$7.9 billion
Budget Impact (FY 1978)		
BA	$4.3 billion	$2.4 billion
O	$3.2 billion	$2.1 billion

OMB feels the storage target of 250 MB by 1978 is overly optimistic and that expanding the program beyond 500 MB in 1980 has not been justified on engineering or cost base. They also believe that expansion to 750 MB from the 500 MB level would be too expensive (estimated cost, $4 billion).

Acceleration of the petroleum storage program is justified according to both agencies. By accelerating the program, we achieve approximately 30 days additional capacity by 1980. This could result in prevention of $3.0 to $3.5 billion of impact to the economy during a severe interruption.

FY 1978 funding for the stockpile program does not preclude enlarging or accelerating the program later, but FEA's proposal to have facilities in place to expand the system to 750 MB appears justified. This contingency would allow us to expand from approximately 60 days storage to 90 days storage, resulting in a potential savings of $50 billion of economic disruption during an embargo. This is also in line with your campaign commitment to speed the program.

The disagreement between OMB and FEA regarding the level of storage for December, 1980 results from OMB's denying authority to use two storage sites in Ohio. While these are not the most attractive storage facilities, they can be utilized in a cost effective manner.

A major difference between OMB and FEA concerns the price to be paid for crude oil to stock the reserve. OMB recommends budgeting at the national composite average of $11.40 a barrel. This does not, however, take into acocunt several cost contingencies. The present national composite average, assuming future OPEC oil price increases, is presently $11.81. In FY 1978, the world price, assuming OPEC oil price increases, is anticipated to be $15.06. In addition, the OMB estimate does not include payment of a cargo preference penalty. Under present procurement law, 50% of all oil purchases made by the Federal government must be shipped on U.S. bottoms. If the military buys the oil using their legal authority, 100% of the oil must be shipped on domestic bottoms. In addition, the Congress may include cargo preference as a part of oil spill legislation.

<u>Recommendation</u>: Since we have reservations about the analysis of both agencies, we recommend you approve the OMB request. The future course of this program is in desperate need of review and should be thoroughly reexamined before the April 20th energy policy statement. The Congress should be made aware that the recommendation accompanying this budget request could undergo significant change after a careful review; the budget should contain a footnote to this effect.

FEDERAL ENERGY ADMINISTRATION

Issue: OMB and FEA differ on the need to increase the level of audits to the petroleum industry to enforce price control regulation. The Agency requests an increase of 316 positions, bringing their total compliance staff to 1,652 at the end of 1978. This increase would require $2.7 million in 1977 and $9.4 million in 1978; the total regulatory program for each year would be $40.2 million and $48.8 million, respectively.

Comment: The FEA regulatory program has experienced severe management problems over the last two years. Budget and personnel have fluctuated as Congress and the President have argued over the future of price controls.

FEA has concentrated its compliance efforts on selected portions of the petroleum industry, auditing only a few firms. Coverage has not been very comprehensive. Less than 1% of oil importers, crude oil resellers, and natural gas liquids processors have been audited and violation rates are unknown. Only 6% of the independent crude oil producers and 13% of small refiners have been audited and violation rates are unknown. Only 6% of the independent crude oil producers and 13% of small refiners have been audited and the violation rates are 37% and 50% respectively. Only 1% of retail gasoline and heating oil dealers have been audited; the violation rate is 40%.

FEA has proposed a significant change in its auditing procedures to improve its coverage and increase the assessment of fines. Under their proposal, an audit would be made of those firms accounting for 80% of the volume every two years and those firms accounting for the remaining 20% would be covered once in a five-year period. It would continue 100% coverage of major refiners. The new program would cost $11 million, while it would return $70 million in violations.

Under the strategy contained in the Ford Budget, the biennial coverage would be less for some important segments of the industry. The coverage of independent crude oil producers, for example, would be 65%; small refiners, 25%; and natural gas liquids processors, 55%.

Under the revised FEA proposal, the percentage of volume covered in each case would be 80%. The FEA proposal would provide similar coverage over each segment of the industry. It represents a comprehensive revamping of the current hodgepodge of regulatory efforts, and it is an attempt to initiate audits in some segments which heretofore have been ignored. By doubling the audit program in some sectors of the industry, FEA would not be harrassing small firms; rather it would be providing more equitable enforcement and protecting consumers from overcharges.

Recommendation: We recommend you approve the agency request because: (1) the financial return to the Treasury from the accelerated program would be substantial; and (2) there will be adverse political implications if the Ford Administration compliance efforts are not visibly beefed up.

Note* Issue not raised at OMB Director's Review.

FEDERAL ENERGY ADMINISTRATION

Issue: Should the various energy conservation programs in the FEA, including State grants, energy conservation loan guarantees and other relatively small programs, be fully funded?

Discussion: OMB has agreed to provide some but not all of the funding requested for the energy conservation programs in the Federal Energy Administration. The Energy Policy and Conservation Act and the Energy Conservation and Production Act authorized a number of programs for energy conservation to be administered by the FEA. They are geared toward short lead-time actions to save energy and toward helping the States develop their own energy conservation programs. While the total impact of these programs is difficult to predict, they do represent virtually the entire energy conservation effort of the Congress during the last term.

FEA has in the past legitimately been criticized for mismanagement and lack of commitment in the energy conservation area. This in part may explain the reluctance of OMB to provide the agency what it feels it could use.

Recommendation: OMB has compromised with the agency, but has still declined full funding for these programs. The political ramifications of following OMB's recommendation might be adverse, although major increases in the ERDA energy conservation budget can in part offset the impression that your energy conservation commitment is not carried out in the Budget. Nevertheless, we recommend you fund the State energy conservation grants, and the utility, appliance, industrial and Federal energy management programs; the total cost of these programs would be $31.5 million in FY 1978.

Department of Health, Education and Welfare

HEALTH

Child Health Assessment Program

HEW's proposal for a new child health program has changed since the February 7 Director's review. It originally covered all Medicaid-eligible children and all other children beneath the poverty line. It provided a 90% federal match for health screening and follow-up ambulatory care at a cost of $250 million.

The February 10 program no longer covers all children under the poverty line. Instead it includes all Medicaid-eligible children and those children whose family's income would render them Medicaid-eligible but whose status (e.g. intact family) does not. Children in these categories are now eligible for all Medicaid services, not just ambulatory care. Ambulatory care is still federally matched at 90%; the federal match for other care remains the same as present. The cost of this program is still $250 million.

Although we are sympathetic to the health care needs of poor children, we are unable to adequately assess OMB's objections to this program in light of the shifting nature of the HEW proposals. Therefore we reach no conclusion.

Medicare Reimbursement

HEW proposes a phased elimination of Medicare fee differentials between urban and rural physicians. The proposal calls for $200 million of expenditures in FY 1978.

OMB opposes the proposal on the grounds that it will not cure geographic maldistribution of physicians, and calls instead for an integrated rural health strategy as part of the 1979 budget.

It is important to note that, while major reforms in this area can indeed best be presented in the context of a comprehensive strategy, Congressional actions may make a complete postponement of such reform impossible. For example, Congressman Rostenkowski and others have introduced legislation requiring that Medicare reimburse physician extenders in rural clinics. Such legislation is widely supported and very likely to pass. It would cost $25-$30 million in FY 1978. In addition, Senator Talmadge's major administrative and reimbursement legislation presently includes Medicare/Medicaid reimbursement reform. The Senate Finance Committee staff believes that the budgetary impact of this reform will not be felt until FY 1979, but some minor expenditures during FY 1978 may ultimately be included.

Thus, inclusion of about $30 million in the FY 1978 budget for these purposes may be realistic and advisable.

ADDITIONAL ISSUE NOT RAISED IN THE OMB MEMO -- SENIOR CITIZENS MESSAGE

The tentative legislative package submitted to you on January 3 contained a proposal for a Senior Citizens Message based on the following elements:

- Social Security. Legislation to solve the short-term deficit through wage base increases or other measures with effective date postponed to 1979; legislation to solve half the long-term deficit through "decoupling."

- Health. A freeze on scheduled increases in the Medicare deductible from $124 to approximately $144 on January 1, 1978 and in the Part B monthly premium from $7.20 to $7.70 on July 1, 1977. (Total cost: $350 million)

- Other. Increased funding for Older Americans Act social service, employment and nutrition programs. ($10-$50 million)

HEW and OMB have agreed on a freeze in the Part B premiums (cost: $182 million). However, HEW proposes to postpone decisions on Social Security until issuance of the Trustees' Report (approximately April 1), did not request increases for Older Americans Act programs ($10-$50 million) and did not request a freeze in the Medicare deductible (cost: $10 million).

While we are sympathetic with the Department's desire to postpone Social Security decision-making until after the crisis of the first few weeks, we believe it will be difficult to prepare a Senior Citizens Message unless the decisions on the Medicare deductible freeze and the project grant programs are modified. We believe that these initiatives would be a highly visible gesture toward senior citizens, and would fulfill the implied commitment contained in campaign criticism of the deductible increase which President Ford allowed to take place last January 1, from $104 to $124. We believe these considerations outweigh the value HEW sees in allowing the deductible to increase as a deterrent to overutilization of services.

Freezing the Medicare deductible and adding a modest increase for the Older Americans Act would have a significant public impact with relatively modest budget cost.

EDUCATION

Education of the Disadvantaged (Title I)

The Ford budget of $2.285 billion is identical to the FY 1977 level. OMB has recommended a $200 million increase (9%) above the Ford budget. HEW requests an additional $150 million to be divided between Title I and emergency school desegregation aid.

Although the program is clearly far from perfect, we recommend serious consideration of the HEW proposal. Title I presently serves fewer than half the eligible students. A significant increase in funding would be a signal to both education and civil rights constituencies of this Administration's commitment to education, children, and the disadvantaged.

Basic Opportunity Grants (Higher Education Assistance)

OMB has allowed a $208 million increase to extend participation to 500,000 middle-income students. If overall budgetary considerations permit, we urge serious consideration of HEW's proposal for an additional $264 million to raise the maximum award per student to $1,600.

The Congress last year authorized an increase in the maximum grant from $1,400 to $1,800 per year. (Note that BOG assistance cannot reimburse more than half of a student's educational costs in any year). Increasing the grant to $1,600 would stress the Administration's concern for low and moderate income families hard-pressed to send their children to college.

We believe that aid to families with children in college or other post-secondary schools is a legitimate way to assist our moderate income constituency, and--regardless of your decision on this item--would strongly urge consideration of major legislation in this area in next year's legislative package.

National Direct Student Loan Program

The OMB has proposed eliminating the federal contribution to the NDSL revolving fund, essentially on the ground that colleges and universities (who control awarding of the loans) grant loans to many students who are not truly needy. To implement the OMB proposal would require legislation.

HEW suggests adding $286 million--the statutory minimum--to the fund. We strongly urge your support for this approach on the following grounds:

- Congress is unlikely to adopt the legislation needed to implement a cut, and so budget savings are illusory.

- Congress provided the guarantee of continued NDSL funding as part of a legislative compromise with private colleges in which much student aid was taken from the control of institutions and funneled through direct federal aid to students (the Basic Opportunity Grant Program). A sudden retreat from this commitment would be met with genuine outrage by private colleges and universities.

- Successful elimination or reform of NDSL is much more likely in the context of an overall Administration higher education package which would be submitted next year. Moving precipitously without advance discussion could jeopardize the goodwill needed to develop and enact major higher education legislation next year.

Impact Aid

OMB proposes to cut from the FY 1978 Budget all of the $68 million in funds currently allocated in FY 1977 to "Part C" of Impact Aid. This provision provides aid to school districts serving children in public housing. The funds are designed to compensate for the tax-free status of public housing property, and to ease the fiscal burden on communities which voluntarily accept low income housing. The OMB objection that these funds need not be spent directly on poor children is therefore not directed to the real justification of the program. We would agree with the HEW recommendation that this program continue at current levels, pending review in next year's budget and in developing the overall education legislation the Administration will offer next year.

HOUSING AND URBAN DEVELOPMENT: COMMUNITY DEVELOPMENT

Issue: OMB has accepted HUD's recommendation to increase Community Development Block Grant (CD) budget authority for FY 1978 $3.5 billion to $4 billion. $100 million of the new appropriation is to be distributed in accordance with the grant formula (which may be modified). The issue is whether the remaining $400 million in new funding should also be distributed in accordance with the formula, or whether it should be allocated to a new "Urban Development Action" discretionary fund that Secretary Harris would use to "leverage" private investment in urban areas.

Discussion: Since OMB and HUD have agreed on the funding level for the proposed CD program, the question of how the funds should be allocated can, and in our judgment should be deferred until next week, when HUD's legislative package and a more specific description of the proposed discretionary program will be available for review. Jack Watson concurs in this judgment.

The decision should be deferred because:

- It has no budget impact and need not be made at this time.

- The creation of a flexible urban development capacity is Secretary Harris' highest priority.

- There is no major new urban policy or community development initiative in HUD's 1978 package; all the other legislative recommendations seek incremental changes to achieve policy goals. We should not peremptorily reject a program which would be an important signal to a variety of constituencies which expect a strong Carter urban policy.

- There are special development opportunities, sometimes requiring heavy front-end investment, which cannot, in our judgment, be capitalized upon under the present program. The objectives of the discretionary fund are not identical with the purposes of existing programs. The point, though, is not to pre-judge the issue but to consider Secretary Harris' specific proposal when it is available this week.

Recommendation: Defer decision without prejudice on discretionary fund until next week.

HOUSING AND URBAN DEVELOPMENT: SUBSIDIZED HOUSING

Issues: Should the budget for subsidized housing provide for (1) higher rent ceilings, (2) an extension of the Section 8 rent subsidy from 20 to 30 years, and (3) specially earmarking Section 8 funds for 50,000 state-financed units?

OMB Recommendations: OMB opposes all three changes, on the grounds that (1) rent ceilings are adequate, (2) lenders are willing to finance subsidized housing without a longer subsidy, (3) shorter subsidies increase the lender's incentive to underwrite selectively, and (4) state-financed units are 18% more expensive than privately-financed units.

(1) We have no comments with respect to raising rent ceilings.

(2) Extending Rent Subsidy from 20 to 30 Years: Section 8 -- the major subsidized housing program -- provides for two kinds of new construction: privately-financed, and government-financed or insured. The program has been relatively unsuccessful in attracting conventional private financing, with 80% of the projects relying on government financing or insurance. For FY 1977, HUD reports that 80,000 units are not moving to starts because private financing is unavailable.

Continued failure to attract private capital will threaten two Administration campaign commitments: meeting the Ford Administration's objective of 400,000 assisted units per year, which will be difficult as is, and fulfilling this Administration's policy of generating private sector involvement.

The present 20-year rent subsidy has been incapable of attracting adequate private investment for the following reasons:

- Mortgages for subsidized multifamily units average 30-40 years. According to the chairmen of a half dozen leading mortgage lending institutions, lenders are generally unwilling to provide mortgages substantially beyond the term of the guaranteed Federal subsidy. They will not accept the risk of a projected reduction in income stream.

- The alternative -- providing 20-year mortgages -- raises annual debt service costs, pushing rents above HUD rental ceilings, making such financing impossible.

-- Since government-backed financing (FHA, GNMA) provides for a 40-year mortgage, with lower amortization, conventionally financed units cannot compete favorably on a cost basis.

Secretary Harris' recommendation that the rent subsidy be extended from 20 to 30 years would not affect outlays for 20 years, but would increase budget authority $5.5 billion in FY 1977 and $5.1 billion in FY 1978. Beyond the factors cited above, this proposal deserves consideration for the following reasons:

-- Key members of Congressional housing committees (Senators Proxmire, Cranston; Congressmen Reuss, Boland) support the 30-year proposal; Reuss regards present subsidy as a "fraud."

-- Lenders, developers without a financial interest, and housing experts (Bob Embry; Dick Ravitch) unanimously agree that the required levels of conventional financing will not be forthcoming under the present subsidy agreement.

-- Since most financing under the program is FHA-insured with 30-year terms, the government faces serious default problems once the 20-year subsidy ends; alternatively, the subsidy will be renewed. One way or another, the Federal government will subsidize these units after 20 years; the issue is whether this year's budget will reflect that reality.

Recommendation: Although investment behavior cannot be predicted with certainty, we believe that Secretary Harris' proposal should be approved.

(3) Providing for 50,000 state-financed (HFDA) units as part of the 400,000 units for FY 1978.

Secretary Harris' proposal would have no immediate impact on outlays but would increase budget authority $4.3 billion over a 40-year period. OMB's rejection is based on (1) the increased budget authority, and (2) the allegedly greater cost of state-financed units as opposed to privately-financed units.

The increased budget authority reflects the fact that state-financed subsidies extend for 40 years, rather than 20 years when a private lender is involved, requiring twice as much budget authority per unit.

You should consider the following factors in reviewing this decision:

-- It is critical that this Administration meet the Ford Administration objective of 400,000 annual assisted units. State-financed units have supplied a majority (52%) of new starts achieved under the Section 8 program. Units placed under reservation by HFDA's have almost twice the likelihood of actually becoming starts than non-state-financed units. We are considering, in short, the one part of Section 8 which has clearly worked.

-- HUD believes that in FY 1978 state-financed units could achieve at least 70,000 reservations, well above the 50,000 reservations Secretary Harris has proposed. Some housing experts question the 70,000 figure.

-- Since no new outlays are involved the legitimate budget question is budget authority. The argument that state projects require twice as much budget authority does not consider the fact that assistance for privately-financed units would generally be renewed after the 20-year period to avoid the wholesale eviction of project tenants. The distinction between 20 and 40 year terms thus breaks down if you assume that lower income tenants in higher-cost projects will require assistance for the longer period.

-- The notion that state-financed units are more costly ignores certain considerations. First, subsidy figures for FHA-insured projects do not take account of the usual accompanying GNMA subsidy. Second, the cost of FHA-insured projects does not take into account HUD's risk of loss if the project defaults -- HFDA's assume that risk. Finally, HFDA provides for higher contract price units so that their projects can be financially viable, contributing to the much larger failure rate of non-HFDA developments.

-- Congressman Ashley (Chairman of the Housing Subcommittee) believes if HFDA units are not specifically included, Congress may put them back in. Other Congressional leaders do not necessarily see strong feeling on this issue.

Recommendation: We believe you should consider approving the 50,000 state-financed units to increase the likelihood of our meeting the 400,000 unit goal.

Justice

Law Enforcement Assistance Administration for juvenile justice and delinquency prevention programs

Recommendation: We support OMB's view.

Legal Services Corporation (Issue not raised in OMB memo)

Issue: Should the budget authority for Legal Services Corporation be increased over its current funding of $125 million? The Corporation requests $217 million in budget authority. OMB has recommended $150 million.

Agency Position: The Corporation requests $217 million for FY 1978 so that it can begin to meet its statutory mandate to provide minimal legal services to poor persons. This amount would enable the Corporation to provide minimum access to legal services for the first time to approximately 10.6 million poor persons who do not now receive such service.

The Corporation believes that previous funding levels were inadequate and that increased budget authority is necessary to demonstrate this Administration's commitment to legal services for the poor.

OMB Views: The OMB believes that the Corporation has provide no evidence to support its estimate of the number of poor people and their need for legal representation. They believe that the Corporation did not show that funds were not available from other sources.

The OMB recommends FY 1978 budget authority for $150 million.

Recommendation: We recommend that the budget authority be increased to approximately $200 million. This figure would reserve the trend of previous administrations, and demonstrate our commitment to equal access to the courts. Attorney General Bell supports the Corporation's full $217 million request.

ISSUE Additional funds for maritime operating and construction subsidies

Discussion

The merits of shipbuilding and operating subsidies hinge on the national defense justification for a strong merchant marine. During the campaign we specifically endorsed the national security concept and affirmed support for a strong American built and manned fleet.

Current construction funds are sufficient to carry the program at present levels. There will be criticism of our failure to deliver on our campaign commitments to accelerate the rate of ship construction, but there is legitimate doubt whether additional ships actually need to be constructed for service in our merchant fleet.

A more difficult question is raised by the proposed moratorium on new contracts for operating subsidies. Top executives of major American flag shipping companies have contacted us to indicate that there will be disruption of their industry. They claim their ability to bid for new contracts, obtain financing, and hold market shares will be jeopardized. The maritime unions also view the moratorium as an unexpected threat to their jobs.

While the concept of keeping our options open sounds plausible, operating subsidies for our merchant marine cannot realistically be phased out in the forseeable future. Support for the merchant marine is very strong in Congress, and we can expect quick Congressional action to reverse restrictions on operating subsidies.

Recommendation

Accept OMB's recommendation for no new construction authority but lift the restriction on the signing of new contracts. Unless we fully intend to take on the issue of maritime subsidies during this budget cycle, it is unwise to incur the political liability of appearing to oppose maritime interests, based on the unrealistic belief that we are keeping our options open.

ISSUE Funds for Urban and Highway Transportation

Discussion

In comparison with the Ford Budget, OMB's recommendations will add approximately $1 billion to the highway ceiling and $50 million for mass transit. On political grounds the increase in highway funds is sound. The House would almost certainly raise any ceiling which we proposed which was below last years level. On programatic grounds the small increase in transit funds (for buses) and the moratorium on major commitments for transit projects is also sound. If we are to move to consolidated funding we need to refrain from long term commitments which would have to be fulfilled even after the adoption of consolidated funding.

However, the political liabilities of substantially increasing highway funds while holding down mass transit approriations should not be underestimated. We can expect severe criticism from big city mayors, transit operators and liberals generally for this presumed slighting of mass transit. The OMB mass transit proposal is far below the $400 million in increased capital grant funding originally requested by Secretary Coleman. To varying degrees we will lose the trust of urban transit supporters and this will complicate any effort to achieve consolidated transportation funding in the future. New momentum will be generated for Senator Williams $11.4 billion transit aid bill.

Recommendation

Accept OMB recommendation but inform Congress that we will be proposing consolidated funding for urban transportation during this budget cycle.

Small additional increases in funds for buses will not solve our political problems. Therefore we should follow this budget as quickly as possible (within 60 days) with our proposals for consolidated financing for urban transportation. The only shield we will have from criticism of these budget priorities will be our proposals for new funding mechanisms.

ISSUE <u>Additional capital funds and interest subsidies for the Washington METRO transit system</u>

<u>Discussion</u>

METRO has experienced enormous cost overruns and faces large operating subsidies when completed. The system is currently in the midst of a reevaluation of its future. It is important that this review by local jurisdictions be completed in a fiscally disciplined framework without assurance of full federal funding.

Additional help for METRO may be appropriate later. But bailing METRO out now will set a precedent which other cities may expect to be repeated later, and we should not risk raising undue expectations of federal help in other areas.

<u>Recommendation</u>

<u>Accept the OMB recommendation to postpone additional capital and interest subsidies until the evaluation studies are completed.</u>

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

The OMB Director's Review of the ERDA Budget has not been held, and we have not yet been supplied the current information. There are three major issues which need to be evaluated:

- nuclear proliferation
- fast breeder reactor
- synthetic fuels

We will be analyzing these issues as soon as the materials are provided to us.

Note* Issue raised in earlier
OMB memo

ISSUE <u>Labor Department job programs</u>

<u>Discussion</u>

The jobs component of the fiscal stimulus package has already gone to Congress. OMB recommends no change in the overall size of the package but raises two issues which deserve attention:

1) That the array of new categorical programs and the reimposition of greater federal control in setting standards for CETA block grant programs represents a basic change in the relation of states and localities to the federal government.

2) That the Labor Department package runs directly counter to the stated goal of a counter-recessionary program. No planning is being done for phase out, and the proposed program mix will be much harder to cut back than a less categorical delivery of jobs money to the states and localities for temporary projects.

To some extent these problems are inherent in the use of a jobs program at all in the stimulus package. There is a basic conflict between the creation of useful jobs at the local level, and the desire to have a program which can be painlessly cut back as the economy improves. A counter-recessionary jobs program can be especially unfair to the disadvantaged, who may find that there is no federal money to keep them on local payrolls when the economy improves.

<u>Recommendation</u>

<u>In light of the detailed message to Congress outlining our jobs program, we have little choice but to retain the basic features of the program. Within this framework, however, the Department of Labor should be instructed to attempt to maximize the freedom of local decision makers in the design and implementation of their own programs provided they serve the populations we seek to help. In addition DOL should begin planning measures to implement the phase down of these programs as the economy improves.</u>

THE WHITE HOUSE

WASHINGTON

February 11, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Hospital Cost Containment Program

HEW Secretary Califano has endorsed and further developed the program to control health inflation that was contained in the draft legislative package I submitted to you on January 3. My staff and I have closely examined the HEW proposal, and although we are not wedded to each detail, we are in full agreement with this program. It is now included in the budget submission being transmitted to you by OMB Director Lance.

The program would limit overall cost increases in our hospitals, where 40% of all health spending occurs. Hospital inflation is now 15% per year. The program would limit the national growth of hospital expenditures per patient to approximately 10% per year. Federal Medicare and Medicaid savings would be $793 million in FY 1978, total savings to the economy would be $1.65 billion, and state and local Medicaid savings would be $115 million. A more detailed description of the program, prepared by HEW, is attached as Tab A. A copy of this description is being circulated to the Economic Policy Group for their comments.

This is an interim approach, designed to operate for 18-24 months, to be introduced and passed as a complement to the permanent Talmadge system for prospective reimbursement of hospitals. The sophisticated Talmadge system would take over on a phased-in basis as administrative capability permits.

My staff is working with Senator Talmadge's Finance Committee staff on his legislation establihsing the permanent system. Further, the Senator's staff reports that he is willing to support the interim cost containment program. In fact, staff indicates he is prepared to make it part of his bill, if you request that he do so.

If you agree that we should continue to pursue this approach, the need for your involvement is now great. The publication of our proposed budget on February 22 will make necessary an explanation of how we anticipate accomplishing the Medicare/Medicaid reductions it contains.

The first priority is to consult in advance with the health leaders on the Hill. My staff has talked with the major Hill staff members and believe that this program will be supported. Tab B contains the names of the eight senators and Congressmen whom you might call early next week, and suggested approaches you might take in those conversations.

The remaining interested parties--labor, business, health insurers, and health providers--will be contacted by Secretary Califano and me. The reaction to this proposal will probably be as follows:

1. Labor. The unions will be generally supportive. They are concerned about rising health costs, they recognize that National Health Insurance depends on cost containment, and they support the expenditure limit approach in the Kennedy-Corman Bill which--like the proposed program--does not involve wage and price controls. Those unions with hospital employee members may have difficulties with the program. We will attempt to address this problem by explicitly incorporating into the exceptions criteria a consideration for low-wage hospitals.

2. Business. Although as a general principal the business community is opposed to federal intervention, it is increasingly concerned about health care costs and becoming aware that the health industry departs from traditional market models. If handled gingerly, the business community could be persuaded not to vehemently oppose the proposed program. The automakers have been the most visible in discussions of health costs, and may even be supportive.

3. Insurance Industry. The health insurance industry is also deeply concerned about health care costs. Some Blue Cross chapters are on the verge of bankruptcy. In addition, sophisticated industry leaders recognize that if inflation continues unchecked, the public and Congress may accept the argument that only total federal financing can control health costs. We should make the insurance industry aware that

this program represents its opportunity to demonstrate that it can work effectively with hospitals to control costs and that it deserves a major role under national health insurance. It should also be made aware that the most widely mentioned alternative to the system-wide limitations proposed here is a limitation on Medicare/Medicaid expenditures alone. The industry strongly opposes this alternative because it would force hospitals to shift their rising costs to private payors.

4. Health Providers. Hospitals will complain strongly against the program, although many recognize that such a system is necessary to enable them to resist physician demands for more expensive equipment and so forth. The AMA will be strongly opposed.

You may wish to have me send, over your signature, a series of telegrams to selected leaders of the above communities, urging their support and recommending consultation with Secretary Califano and myself.

This proposal is not a system of wage and price controls, but an effort to limit the overall growth of hospital expenditures. Experience indicates that without government intervention, health inflation will continue unchecked.

I believe that this program has good prospects for adoption, and that a strong cost containment effort is crucial to the success of any national health insurance proposal.

cc: Frank Moore

February 10, 1977

HOSPITAL COST CONTAINMENT SYSTEM: HEW PROPOSAL

Summary of the Proposal

The President would initiate an effort to develop a permanent hospital cost containment system to cover all payors--Medicare, Medicaid, Blue Cross, commercial insurance and self-pay. The Secretary would appoint a national advisory committee of broad representation to advise on all aspects of the system and help determine future trends in spending for hospital care. The program would be directed by the Secretary of HEW and would begin with a directive from the Congress to establish limits on annual rates of increase in hospital reimbursement from all payors, beginning in FY 1978, after consultation with the health industry and the public. The program itself would be administered in large part by the hospitals and private third party payors who would be responsible for working with the Federal and State governments to achieve needed efficiencies and economics in health care.

Recognizing that a simple ceiling on increases in hospital reimbursement can be inappropriate for changing conditions over a long period of time, the Secretary would be authorized to work in consultation with the Congress to evolve a more permanent cost containment program, the form and stringency of which would be subject to negotiation with the health industry and advice of the national committee. This plan would then remain in effect until absorbed by reimbursement provisions of a comprehensive national health insurance plan. The Secretary would also be directed to develop criteria to waive Federal cost containment requirements in those states that have acceptable hospital rate review programs.

Budget Implications

	Fiscal Years (In millions)				
	1977	1978	1979	1980	1981
Hospital Spending without Cost Containment	$ 64,652	$ 74,931	$ 86,396	$ 99,269	$ 113,266
Estimated Savings		2,442	4,900	7,840	10,888
Federal Medicare		659	1,323	2,117	2,940
Federal Medicaid		134	270	431	599
State Medicaid		115	230	368	512
Other State & Local		291	583	933	1,296
Private Sector		1,243	2,494	3,991	5,542

Key Features of the System

- Appointment of a national level advisory committee composed of individuals representing consumers, insurers, physicians, nurses, hospitals, labor, business and government. Specific responsibilities of the committee would include advising the Secretary of HEW on:

    1. Criteria for granting waivers from Federal cost containment programs, both short term and long term, for those States with acceptable hospital rate review program, and how the Department could further assist states in developing that capability.

    2. The potential effects of alternative levels and types of hospital cost containment, beginning in FY 1978.

    3. Any proposed hospital cost containment regulations or policies prior to their publication for public comment.

- Congress would direct the Secretary of HEW to establish prospective limits on increases in hospital reimbursement for all payors for beginning in FY 1978 after consultation with the health industry and the public. Provision would also be made in the legislation for adding necessary staff.

  Tentative Timetable - Assumes passage in May, 1977 and first reimbursement limits effective on October 1, 1977:

    1. Secretary solicits opinions through a notice of intent published immediately upon passage of legislation.

    2. National level advisory committee selected by July 1.

    3. Secretary consults with advisory committee representatives of major national organizations (by July 15).

    4. Secretary holds public hearings in each of the HEW regional office cities (by August 15).

    5. Secretary establishes tentative limits and publishes notice of proposed rule making for 30 days of public comment (by August 22).

    6. Secretary consults with national advisory committee and representatives of major national organizations and makes any necessary changes in limits, which are published in final form effective October 1.

Preliminary Recommendations for FY 1978

1. Under the Federal System, a limit of approximately 9% on increases in reimbursement for operating costs per admission for each hospital, with exceptions totaling about 1% of expenditures to handle unusual financial hardships and the added cost of approved new capital and services.

2. Waiver for States with acceptable hospital rate review programs.

3. Separate controls on hospital outpatient departments, to encourage alternatives to inpatient care.

4. Federal programs would encourage additional cost containment activities such as second opinion before surgery, pre-admission review for non-emergency hospital care, etc.

5. Monitoring for compliance by Federal government, primarily using data already reported by hospitals for other programs, such as Medicare and Medicaid. Hospitals found in violation of reimbursement ceilings in any year could "repay" excesses by reducing charge or reimbursement increases in future years. Civil and criminal penalties would be included to combat fraud and abuse.

Program Justification

There is an urgent need to set a course of actions designed to contain the continued rapid and disturbing rise in the cost of health care, particularly the cost of hospital care. These costs continue to increase much more rapidly than the overall cost of living, and abatement is not likely unless strong action is taken. The Department therefore proposes a multi-stage plan to contain the increase in hospital costs, all based on a strong Presidential initiative.

Over 90 percent of all expenditures for hospital services are now paid for by some third party. More than 50 percent of hospital spending is reimbursed based on costs incurred by the hospital in providing services (cost-reimbursement), with another 40 percent paid by insurance companies based on the charges billed by the hospital. Medicare and Medicaid as well as most Blue Cross plans use the cost-reimbursement system. Cost-reimbursement was originally considered the best cost control device for public programs--hospitals would not lose money, nor would they make profits. However, it is now generally recognized that open-ended cost-reimbursement has not encouraged sufficient restraint in spending by health care providers. In effect, the higher the hospital's cost, the higher its reimbursement.

Since the introduction of Medicare and Medicaid, the average cost of a day in the hospital has tripled from $44 per day in 1965 to $154 per day in 1976 compared to only a 70 percent increase in the overall cost of living. During this past year alone, while the overall CPI rose 7 percent, the cost of a stay in the hospital rose almost 15 percent, and the rate of increase is expected to be almost as high in the next few years. These increases alone have added about $2 billion to the budget of public financing programs in FY 1976 and are expected to add an additional $2.5 billion in FY 1977. Previous attempts to control the costs of just public programs have been fragmentary, small scale, generally arbitrary and have had little net effect on either program or total hospital costs. Most of the department's current efforts are either limited in scope, just starting or experimental in nature. Therefore, postponing development of a comprehensive hospital cost containment system would merely perpetuate the current cost escalation and reduce the likelihood that the nation could afford national health insurance.

Estimated FY 1978 Allowance

The basic allowance

Expected increase in wages in the general economy	8.1%
Expected increases in price (total CPI)	5.5%

Weights: payroll = 55%
non-payroll = 45%

Calculation: 7.0% due to increases in wages and prices
(8.1% X .55 + 5.5% X .45 = 6.9%)

2.0 for added intensity
9.0 total basic allowance for each hospital

Adjustments

- The FY 1978 allowances would include two adjustments:

  1. Revenues to cover added depreciation due to increases in services or facilities where they could not be financed out of the revenues generated by the added patients (pool of $100 million under Medicare and Medicaid to be dispensed by the States on an individual case basis); and

2. Exceptions for unusual financial hardships causing a negative cash flow or unusually large wage settlements required by equity considerations, e.g. effect of minimum wage laws (estimated to be approximately $50 million under Medicare and Medicaid).

Basis for Long Term Estimate of Savings

The hospital expenditure projections above were based on the FY 1976 estimate of hospital spending by the Office of Research and Statistics of SSA. They were inflated by the annual growth rates estimated by the SSA Actuary. The rates of growth were then reduced for inpatient services in short term general hospitals to take into account a 9 percent limit on increases in reimbursement per admission, plus exceptions and adjustments. No savings were estimated for long term, psychiatric or tubeculosis hospitals. Finally, the savings were apportioned to each payor based on its percentage of hospital expenditures in FY 1976.

Supporting Arguments

1. Medical Costs Are Out of Control

- Hospital spending rose over $7 billion in FY 1976.
- Cost per hospital stay rose almost 15% in FY 1976.
- Medicare and Medicaid spent $14.5 billion for hospital care in FY 1976, and expect to spend almost $18 billion in FY 1977.
- Half the increase is due to inflation, while the other half is is accounted for by additional use of inputs.
- Unless something is done to contain the increase, total hospital spending will be almost $75 billion during FY 1978, with the Federal Government spending about $30 billion.
- If inflation is allowed to continue at current rates, spending under national health insurance could double in five years.
- The HEW proposal would provide substantial fiscal relief to States and localities. Savings could be in excess of $400 million in FY 1978, growing to $1.8 billion by 1981.

2. Direct Implications for National Health Insurance

- The short-run limits on reimbursement increases are not considered by anyone to be the panacea making national health insurance financially feasible. They are a necessary first step in an evolutionary process to build in long-run cost and quality controls as promised by the President during the campaign.
- The HEW proposal commits the administration to prospective reimbursement, not permanent controls based on any specific short-run approach. This is completely consistent with a major compaign promise.
- The HEW proposal would encourage the evolution of strong positive relationships between the Federal government and States, and would not lock the Federal government into any particular arrangement that would not be consistent with the administrative structure of national health insurance.

3. Effects of Cost Containment Efforts Limited to Medicare and Medicaid Alone.

- Freezes in the principles of the 1977 and 1978 Ford budgets.
- At best, it would achieve short-run budget control, with no real cost containment potential. It would not curb total hospital costs, and hence national health insurance would become extremely expensive in furture years.
- Would have a whipsawing effect of shifting costs to private insurance, adding to the burden now faced by the average American worker.
- Would eventually result in a fraud and abuse problem similar to that now faced by Medicaid.
  - Within five years a Medicare hospital day might be reimbursed at $236, while a private sector day might cost 283.
  - The likelihood of a further 20% difference in payment might result in hospitals rethinking long-standing commitments to Medicare patients.
  - Two class medicine could become a reality for Medicare.
  - Might discourage hospitals from admitting elderly patients, and bring back "ward medicine".
- The cost differentials between public and private patients will eventually catch up with us--leading to pressure for distuptive termination of controls.
- Controls on Medicare alone would be politically unacceptable--to aged groups, labor, and the private insurance industry.

4. Administrative Burden

- The HEW approach, by relying on existing third party mechanisms would have minimal additional administrative cost.
- The HEW proposal would require no more than about 100 new staff once fully implemented.
- A program limited to Medicare and Medicaid would not be much less costly to administer.
- The State waiver provisions would encourage continued investment by States in prospective reimbursement systems consistent with long-term Federal policy objectives.
- A strong involvement of the President in jawboning could have significant positive effects in encouraging greater efforts by the Governors and State and local agencies to solve cost problems themselves.

5. Value of Private Sector Efforts

- No large-scale private sector efforts have been undertaken yet.
- Anecdotal evidence on private sector efforts to date show that these efforts are necessary but not sufficient. They are fragmented, and clearly do not have adequate influence in most communities.
- Most communities are now looking to the public sector, especially the Federal government, for leadership.
- Not supporting such activities by a comprehensive Federal cost containment system would severely undermine the potential benefits of State and private sector efforts.

TAB B

SUGGESTED REMARKS TO CONGRESSIONAL HEALTH LEADERS

Senator Herman Talmadge - Chairman, Health Subcommittee, Senate Finance Committee

I would like to propose a short-term program which places a limit on the expenditures per patient each hospital can make. This program will reduce hospital inflation from 15% to about 10%. It is meant to complement your efforts to establish a permanent prospective reimbursement and cost control system. I hope it can be a part of your prospective reimbursement bill, which I support fully, and which our staffs have been working together on. My staff and yours will continue to work together.

Senator Edward Kennedy - Chairman, Health Subcommittee, Senate Labor & Public Welfare Committee
Congressman Al Ullman - Chairman, House Ways & Means Committee
Congressman Tip O'Neill - Speaker of the House
Senator Robert Byrd - Majority Leader of the Senate

I would like to propose a short-term program which places a limit on the expenditures per patient each hospital can make. This program will reduce hospital inflation from 15% to about 10%. I believe that this interim inflation control program, which will later be replaced by a permanent prospective reimbursement system, is the essential first step toward national health insurance. I look forward to your support. My staff is ready to brief you and work with you.

Congressman Dan Rostenkowski - Chairman, Health Subcommittee, House Ways & Means Committee
Congressman Paul Rogers - Chairman, Health Subcommittee, House Interstate and Foreign Commerce Committee
Senator Russell Long - Chairman, Senate Finance Committee

I would like to propose a short-term program which places a limit on the expenditures per patient each hospital can make. This program will reduce hospital inflation from

15% to about 10%. I believe that this interim inflation control program, which will later be replaced by a permanent prospective reimbursement system, is essential to control our rising health costs and to make possible important reforms in our health programs. I look forward to your support. My staff is ready to brief you and to work with you.

Memorandum

OFFICE OF MANAGEMENT AND BUDGET

TO: Mr. Bert Lance, The Director

DATE: February 10, 1977

FROM: Bo Cutter

SUBJECT: Budget Discussion with the President

This is for your meeting today with the President. Attached is a list of the budget appeal issues that we think should be discussed with the President on Monday or Tuesday. Other issues that agencies are appealing can be settled here in OMB. We will give you a full list.

We presume that the budget issue discussions with the President should include agency heads for those issues affecting the Departments of Health, Education and Welfare, Housing and Urban Development, the Environmental Protection Agency, and the Federal Energy Administration/Energy Research and Development Administration. Our estimate of the time needed for all the discussions is 5 hours. If no agency heads are included, the time could be reduced to 3-1/2 hours.

The first issue on Labor's fiscal stimulus programs is more urgent than the others. Chairmen Mahon (House Appropriations) and Giaimo (House Budget) are calling OMB to ask that appropriations requests for the fiscal stimulus package be sent to the Congress as early as possible next week. We can send such a package if the issue on the Labor training and job programs is resolved quickly--today if possible. However, we do feel that the present design of Labor's part of the stimulus package represents a major, and relatively unexamined, change in strategy and could have important effects upon program capability, personnel levels, and our ability to phase programs out in later years.

Attachment

cc: Dale McOmber

bcc: Official file (BRD/FAB Rm. 6025)
Mr. Cutter (2)
Mr. Modlin
Mr. Mathiasen
Mr. Dame
Mr. Strauss
Mr. Johnson
Mr. Norwood
Control
Chron

BRD/FAB:DMcOmber/DMathiasen:sar 2/10/77

2/9/77

Fiscal Stimulus Package -- Department of Labor Issues

The Department of Labor design for the programs to implement its part of the fiscal stimulus package present major policy issues for the future direction of manpower programs and for the potential of phasing out these expenditures after the need for stimulus is past.

- Categorical Programs for Youth, Veterans, Migrants, etc

-- Labor would impose strong Federal controls on design and Federal review and approval of projects, in order to insure quality. Annual cost: $1.6 billion.

-- This reverses the pattern in Comprehensive Employment and Training Act (CETA) of providing considerable local discretion on program design.

-- Labor would move comparable controls to the base CETA programs, arguing that CETA fails to serve the disadvantaged adequately (67% vs 78% in predecessor programs) or to use skill training.

-- Groups served and program mix are more the result of recent economic conditions. There is no analytical evidence of failure of CETA.

-- There is no evidence that Federal program design leads to better programs.

-- The same targetting on groups in need can be accomplished by alternative methods with the same outlay effect but without this withdrawal from local discretion on design and with a somewhat greater chance for eventual phase-out.

The Labor approach presents a markedly different manpower strategy than that provided for in the CETA program. In our judgment the choice between the emphasis on local discretion and the emphasis on Federal controls is sufficiently important to merit Presidential review.

Federal Staffing

-- The Labor approach in total requires 521 new staff in Labor and 3,000 to 5,000 (for the Rural Youth Services Corps) in Agriculture and Interior.

-- Alternative approaches could accomplish the program goals with a total of only 125 new staff.

Public Service Jobs

-- Labor would put 75,000 of the 415,000 new jobs in the Comprehensive Employment and Training Act (CETA), Title II, which does not limit eligibility to low income/long-term unemployed, and which is considered a permanent program. (It does offer faster hiring).

-- Putting all the increase in Title VI would ensure reserving this device for those most in need. Title VI also uses one year projects making phase-out more likely.

-- Labor is not planning to submit legislation that phases down public jobs as the economy improves.

-- The 725,000 public jobs will cost $6 billion per year, about $5.5 billion over the prerecession level.

Army Corps of Engineers and Interior Bureau of Reclamation

Issue: Should the FY 1978 request for funds be withdrawn for controversial water resource construction projects?

Discussion: We have begun a review of all water resources development projects now under way to determine recommended disposition of all those that are (1) environmentally controversial (2) economically marginal or (3) present potential safety problems. Environmentalists urge that you amend the FY 1978 budget to eliminate appropriation requests for about 30 projects pending completion of that review. Under this concept you would submit later upward budget amendments for any that you wish to reinstate.

A list of projects along with the pertinent information on each is being prepared for discussion of this issue.

Environmental Protection Agency

Issue: What should be the full-time permanent position ceiling for the Environmental Protection Agency?

Agency Position: The Administrator-designate has not taken a position on the Agency's personnel ceiling. However, the Acting Administrator has appealed for an increase of 1,992 additional positions over the January budget ceiling of 9,698.

The Acting Administrator claims that the additional positions are critically needed in order to permit the Agency to meet its regulatory responsibilities. Furthermore, he states:

-- The Agency has received only 347 positions in the last four years although it has moved to implement the clean water, safe drinking water, ocean dumping, noise and pesticide Acts;

-- Implementation of the recently enacted solid waste and toxic substances legislation requires still additional personnel and makes further reprogramming efforts extremely difficult;

-- Cuts made below current levels in the water quality enforcement and research and development areas could result in firings as well as the closure of some facilities;

-- The program and fiscal integrity of the huge construction grants program requires an immediate input of 300 positions.

OMB Views: On appeal, the OMB recommendation is to grant an additional 110 positions for the construction grants and solid waste programs. Programmatically, further additional positions are not viewed as critical to the effective operation of the Agency because:

-- EPA is basically a regulatory Agency. Further increases in personnel will result in additional Federal regulatory actions without, necessarily, any reduction in current lower priority areas;

-- The Agency has received over 3,700 new positions since it was formed to meet increasing program requirements;

-- The January budget provided 280 additional positions for the new toxic substances legislation (100 new positions to be provided immediately) and 30 positions for the new solid waste legislation to build on its current personnel level of 185;

-- The Agency's annual attrition rate of 15% (1,400 positions) per year, in combination with the reprogramming of skills, are tools available to the Agency to meet the programmatic changes required by the January budget.

Environmental Protection Agency

Issue: Waste Treatment Construction Grants

Should the $400million FY1977 supplemental request for the construction of sewage treatment facilities be increased?

Agency position: The Administrator-designate has taken no position on this issue. The Acting Administrator requests a FY1977 supplemental of $4.5 billion allocated among all the States.

OMB views: Although $6 billion is currently available for obligation, approximately 11 States will run out of funds, requiring an estimated additional $400 million. OMB recommends a $400 million targeted to only these States because:

-- The $4.5 billion FY1977 supplemental will increase outlays by $20 million, $30 million and $170 million in fiscal years 1979, 1980, and 1981 respectively, over the $400 million proposal.

-- The $4.5 billion proposal will result in the funding of types of projects that would be ineligible under proposed amendments aimed at funding only high priority projects while reducing the long term cost of the program from $330 billion to $45 billion.

-- A large FY1977 funding level will provide sufficient funds for all States through most of FY1978, reducing pressure on Congress to take early action on reform legislation to focus funds on high priority projects and reduce the long term cost of the program.

Environmental Protection Agency

Issue: What should be the funding level of Federal planning and support grants to State and local pollution control agencies.

Agency position: The Administrator - designate has not taken a position on this issue. The Acting Administrator has requested an additional $124 million over the current allowance of $138 million. The Agency believes that: 1) increased funds are needed by the States to perform their role in meeting environmental objectives envisioned by the various environmental statutes and 2) that the increase in funds would reduce adverse Congressional reaction to consolidating these grants administratively.

OMB views: The current allowance presents a $13 million (10%) increase over the 1977 enacted levels. Every State and every State pollution control agency will receive a significant increase in 1978. Additional funds are not merited because a significant part of the State planning process for pollution control will be completed in early 1978 and the States will have free resources to begin undertaking new tasks. The current level of funding meets the Agency's highest priority needs.

Environmental Protection Agency

Issue: Should the Administration postpone the previous Administration's attempt to consolidate five categorical grant programs administratively and instead pursue consolidation through the legislative process?

Agency Position: The Administrator-designate has not taken a position on this issue. The Acting Administrator agrees with the concept and merits of consolidation but believes that we should get Congressional approval in lieu of consolidating the program administratively. The Agency believes that adverse Congressional reaction could be so severe that Congress may statutorily preclude grant consolidation.

OMB Views: Though this would be the first attempt to consolidate grants administratively, there are no statutory provisions in the Acts which preclude consolidation. In fact consolidation is in the spirit of environmental legislation which recognizes that States have the predominant role in determining how funds should be distributed among State agencies.

It may be the only way to achieve the needed program reform since Congress has repeatedly refused or ignored legislative consolidation.

Environmental Protection Agency

Issue: Should a $137 million supplemental for FY 1977 be proposed for water quality planning?

Agency position: The Administrator - designate has not taken a position on this issue. The Acting Administrator believes that the $15 million included in the FY 1977 Budget is insufficient. He believes that this is the most important program for controlling pollution from agricultural land and similar sources of pollution. Consequently he has requested a $137 million increase for FY 1977.

OMB views: The $137M supplemental request is identical to the amount currently being held back from obligation by the courts. The District Court of D.C. has ruled that $137M in prior year unobligated balances for this program must be made available but the Justice Department has appealed this ruling to the U.S. Court of Appeals and a stay on the lower courts order exists until the case is heard.

Progammatically, additional funds are not merited: 1) because for major metropolitan areas, which represent the major portion of the pollution problem, over $200M has already been granted and these plans are to be completed and submitted to EPA for approval in 1978; and 2) because fulfillment of the statewide planning concept will not yield large water quality improvements since rural areas are not as large a part of the pollution problem.

In addition, it should be emphasized that a request for supplemental funds is premature since the lower court ruling may be upheld. If this occurs and a supplemental is also approved, $274M in additional grant funds would be made available in 1977.

Most State and Regional interest groups, including the National Association of Regional Councils (NARC) and the National Association of Counties (NACO) have strongly supported EPA's request for additional funds for this porogram.

Environmental Protection Agency

Issue: Waste Treatment Facility Loan Guarantee Program

Should the Federal Government initiate a program of Federal loans guaranteed by the Environmental Protection Agency to finance the 25% local share of waste treatment facilities currently receiving 75% Federal grant funds? If so, what requirements should be placed on the program?

Agency Position: The Administrator-designate has taken no position on this issue. The Acting Administrator requests a FY 1977 appropriation of $50 million to be used for payments to Treasury in cases where a municipality defaults on repayment of an EPA-guaranteed loan.

OMB Views: OMB recommends that no funds or positions be budgeted for the loan guarantee program, because:

-- There is no widespread, demonstrated need for the program. The authorizing legislation was passed at the 11th hour of the last Congress without hearings or debate.

-- OMB is initiating a review of the role of the Federal Financing Bank. This review may conclude that programs of this type should not be an appropriate function of the Federal Financing Bank.

If the program is to be funded, OMB recommends the following requirements be adopted:

-- Adoption of eligibility criteria proposed by Treasury which are more stringent than those assumed by EPA. Under law, the final determination of eligibility criteria will be made by the Secretary of the Treasury.

-- Establishment of a contingency reserve through a surcharge on all loans to be used to offset defaults. The contingency reserve will make the program self-financing over the long-term, but would still require a start-up appropriation.

-- Limiting the coverage of the loan program to non-Federal share of costs which are also grant eligible, excluding non-grant-eligible items.

-- Limiting coverage to projects for which local financing has not yet been arranged, excluding the refinancing of existing projects.

FEDERAL ENERGY ADMINISTRATION

Issue: Expansion and acceleration of the petroleum storage program. The agency position would add about $2.6 billion in BA and $1.8 million in outlays in 1978 for a total of $4,252.1 million in BA and $3,213.5 million in outlays. Increases over January planning levels for subsequent years would be substantial.

Agency position: The Federal Energy Administration proposes to:

1. Expand the 500 million barrels to 550 million barrels and storage site capacity to 750 million barrels anticipating subsequent expansion beyond the 550 million barrel level.

2. Accelerate development in order to store 250 million barrels by December 1978 and 550 by December 1980. Previous planned rates called for 150 million barrels by December 1978 and 500 million barrels by December 1982.

3. Budget for oil at the work market price (about $14.40 currently) instead of the national composite price (about $11.40 currently).

OMB views: OMB agrees acceleration of the 500 million barrel program is desirable if it is feasible and cost-prudent. OMB recommends an accelerated program but at a more realistic pace, lower cost and less risk, involving no expansion beyond the 500 million barrel level. 1/ This approach (using the agency's schedule) would result in storage of 200 million barrels by 1978 and 500 million barrels by 1980 or in early 1981. The FY 1978 budget would be increased about $700 million instead of $2.6 billion assuming use of the composite price.

OMB recommends against the agency proposal because:

-- the storage target of 250 million barrels by December 1978 does not appear feasible. The agency is still in the planning stage. A substantial amount of complex work must be completed before storage sites can be filled;

1/ Time was not available for OMB consultation with the agency on the recommended approach. This will be necessary to work out a satisfactory proposal.

-- expansion of storage beyond 500 million barrels has not been justified and any such expansion should be evaluated in developing comprehensive national energy policy in April. Expansion to 750 million barrels from the 500 million barrel level adds over $4 billion to the cost of the system;

-- budgeting for oil at this point should not change -- continue using the national composite but reevaluate this issue in formulating the comprehensive energy policy by April.

FEDERAL ENERGY ADMINISTRATION

Issue: Whether to increase the intensity of audits for certain sectors of the petroleum industry to assure compliance with price controls. The agency would increase 1977 and 1978 staffing by 316 positions over the approved levels of 1613 and 1652 positions, respectively. This would increase BA by $2.7 million in 1977 and $9.4 million in 1978 for a total of $40.2 million and $48.8 million.

Agency position: Current audit coverage is not acceptable. A strategy should be adopted so that those firms that produce 80% of the volume are audited every other year and all others are audited every five years. This would result in an increase of roughly $70 million of violations detected.

OMB views: OMB recommends against an increase in staffing. The FEA proposal is arbitrary and does not take into account the relative importance of the various sectors of the petroleum industry, e.g., producers, refiners, wholesalers, retailers. The audit strategy funded in the January budget places more emphasis on larger firms in the producer, and refiner sectors. FEA's proposal would retain coverages in these areas but almost double audit frequency for those sectors of the industry which handle lesser volumes and are particularly hard hit by the problem that FEA regulations are ambiguous and frequently made retroactive.

HEALTH, EDUCATION, AND WELFARE

1. Child Health Assessment Program

Issue: HEW proposes a new initiative to improve the delivery of health services to poor children. The program would operate through medicaid and cost $250 million in 1978.

Agency position: The present program for periodic health screening of poor children reaches only 35% of eligible children, and only 60% to 80% of those children receive treatment. This program will help pave the way for national health insurance by improving delivery system.

OMB views: Opposes initiation. (1) The problem with the present program is enforcement. (2) Before endorsing another new proposal that sets a particular course of action, a more thorough plan should be examined in the context of an in-depth review of the existing program.

2. Education of the Disadvantaged, Elementary and Secondary Education

Issue: Add another $150 million to program above $200 million already added to January budget.

Agency position: Funds needed to keep pace with the growth in education expenditures generally.

OMB views: Such a proposal leads to large future spending for this program with no relationship of achievement to effective use of the funds.

3. Medicare Reimbursement

Issue: HEW proposes to (1) freeze the premium rate paid by each enrollee in the supplementary medical insurance program, (the January budget proposed an increase from $7.20 to $7.70); and (2) to have a slower phase-in of a plan to eliminate the differentials between urban and rural physicians. Cost: $382 million.

Agency position: Freezing the premium (cost: $182 million) will alleviate a financial burden on the elderly; the physician reimbursement proposal (cost: $200 million) would help curb

3. Medicare Reimbursement (continued)

the inflationary spiral on physician fees and help promote primary care services.

OMB views: Accept premium freeze; reject reimbursement proposal, since it will not cure inefficient geographic and specialty distribution of physicians and could cost more for the same level of service. Suggest an evaluation leading to an integrated rural health strategy as part of 1979 budget.

4. Basic Opportunity Grants (Higher Education for Needy Students)

Issue: HEW proposes adding $208 million so as to permit the maximum award per student at the authorized level of $1,600 per year rather than the $1,400 proposed by OMB.

OMB views: Funding levels have already been increased $264 million above January budget, thereby extending participation to 500,000 middle-income students. Pending development of a higher education strategy, this increase shows evidence of commitment.

5. National Defense Student Loan Program

Issue: HEW proposes adding $286 million of capital contributions to the direct student loan program.

Agency position: HEW feels that proposed legislation eliminating funds for this program will result in confrontation with the Congress.

OMB views: Opposes increase. This program duplicates the basic grant program, for which increased funding is recommended, as well as the guaranteed student loan program, which is estimated to subsidize 900,000 new student loans in 1978.

6. Impact Aid for Education

Issue: HEW proposes to drop proposal to exclude impact payments for children in public housing ("C" children) in appropriation request. Cost: $68 million.

6. Impact Aid for Education (continued)

Agency position: Funding is desirable since target is disadvantaged in urban areas. Any elimination of these payments should be accomplished by legislation as part of overall plan to serve the disadvantaged.

OMB views: Funds provided will not necessarily go for disadvantaged children. If aid to disadvantaged is purpose, then specific funds for that purpose should be added to elementary and secondary education.

HOUSING AND URBAN DEVELOPMENT

Issue: Should the Secretary have more discretion over the way Community Development Block Grants are distributed, or should the use of a needs-based formula be emphasized?

Agency position: Secretary Harris believes she must have control over the distribution of substantial sums in order to take advantage of special development opportunities.

OMB views: The proposals would undermine the needs-based nature of the current distribution mechanism, and revive some of the discredited features of the previous system for distributing funds -- the emphasis on grantsmanship, congressional intervention in the awards process, and substitution of Federal priorities for local priorities. Moreover, the few specifics provided on the intended use of these funds indicate no differences from uses under the current program. OMB believes a decision on reorienting the program in this way should be deferred at this time.

Housing and Urban Development

Issue: Should budget authority for the subsidized housing programs be increased by $22 billion to provide (1) higher subsidized rent levels, (2) extended contract terms, and (3) special set-asides, for State housing agencies? (This would be in addition to the $12.1 billion increase jointly recommended by HUD and OMB to raise the activity level in 1977 and increase support for public housing.) The increase would raise outlays by $40 million in 1977 and $60 million in 1978.

Agency position: Secretary Harris believes that higher subsidized rent levels and longer subsidy terms are needed to assure achievement of her goal of approving 400,000 units of housing for 1977 and 1978. She also believes State agencies can provide housing more quickly than private developers.

OMB views: No evidence has been presented to indicate that subsidized rent levels are too low. In fact, these rent levels exceed the median rent paid by tenants in 18 of the 19 metropolitan areas for which data are available. Contrary to what the Secretary claims, lenders have shown a willingness to support subsidized housing without a lengthening of contract terms; shorter terms give the lender an incentive to do careful underwriting, assuring higher quality projects. Finally, State agencies are much less efficient than private developers. Despite the fact that State agencies are exempt from Federal and State taxation, borrow in the tax-exempt market, and require no profit, their projects cost 18 percent more per year than privately developed projects.

Justice

Issue: Should funds for juvenile justice and delinquency prevention programs be increased?

Agency position: The Department of Justice requests $45 million for the Law Enforcement Assistance Administration for juvenile justice and delinquency prevention programs; additional resources are needed to carry out the provisions of the Juvenile Justice and Delinquency Act of 1974.

OMB views: Additional funds for these programs are recommend. Among LEAA's many activities, programs to combat juvenile delinquency offer the highest potential for affecting crime. However, the $45 million should not be added to the current LEAA budget, but reprogrammed from other activities of lesser or unknown impact. This will force LEAA to improve its management and thereby target resources on projects that demonstrate the most effectiveness in dealing with the crime problem.

Maritime Administration

Issue: Should additional funds for ship operating and construction subsidies be added to the 1978 Budget? The Ford budget provides no new funding for construction subsidies in 1978, and limits additional operating subsidy funding by allowing only short-term renewals of operating subsidy contracts through June 30, 1978, pending completion of an OMB-led study of these programs.

Agency position: Agency position would add $135 million in budget authority and $8 million in outlays in 1978 for construction subsidies on the grounds that rising demand for new construction will exhaust carry-over funds now available and that the January budget request of no new budget authority for this program does not demonstrate clear support for the existing statutory programs.

For operating subsidies, agency position would add $16.5 million in budget authority and 3 million in outlays. Agency also argues for restoration of flexibility to enter into 20 year operating subsidy contracts. The overall agency position here is that the limitation on the operating subsidy program in the January budget will inhibit invester confidence in the maritime industry and will be viewed as a step toward abandonment of the program.

OMB views: OMB believes there is a need to conduct a complete review of the basis for continiuing these subsidy programs to the maritime industry. In the past, the basic justification for these programs has shifted among national security, employment, and other objectives. Pending completion of such a study, further operating subsidy contracts should be restricted to a short-term duration only. A cutoff date of June 30, 1978, is presently assumed to allow adequate time for completion of the study and implementation of recommendations. Allowing 20 year renewals would foreclaose options in this area.

OMB believes that the more than $300 million in unused budget authority currently available will be sufficient to fund the construction subsidy program well into FY 1978, perhaps even through the end of that fiscal year. If demand increases, supplemental appropriations can be requested at a later date. Until then, it is recommended that no new funding be authorized, so as to preserve options for program change that may be identified in this study.

U.S. Postal Service

Issue: Whether to provide funds to the U.S. Postal Service to cover the cost of extending the phasing in of fall cost recovery rates to certain categories of mail users. The Postal Service request would add $223 million in BA and outlays to the 1978 Budget.

Agency position: The Postal Service believes that mailers, especially newspaper and magazine publishers, have adjusted their prices and business practices in the expectation of paying reduced postage rates. The Congress has never failed to appropriate the funds requested, despite their exclusion from Ford's budget. In addition, the Postal Service feels that full cost rate levels would place a financial hardship on mailers, resulting in subscription losses and a decline in mail volume.

OMB views: OMB feels that the regular phasing subsidies provided for in the 1970 Reorganization Act allow sufficient time for mail users to adjust to full cost rates. Also, there is no documented evidence that denial of funds for extended phasing will lead to substantially reduced subscriptions. Magazine and newspaper postal costs amount to an average of only 2% to 5% of total operating costs. OMB believes that the mail users should bear the full costs of the services they require and that the taxpayer should not be required to pay for these services.

(This issue has not yet been reviewed by the Director.)

Department of Transportation

Issue: Should additional Federal funding be provided in 1977 and 1978 for roads not on the federal-aid system?

Agency position: Department of Transportation believes that a $138 million in budget authority is needed in both 1977 and 1978 for safety-oriented off-system highway projects, whereas only $25 million for 1978 is currently in the budget. The Department's position is based on the following:

- highway safety is a national goal with no distinction between on-system and off-system roads.
- off-system safety projects tend to be pushed aside by States in favor of new construction.
- assistance is especially needed for projects in rural areas.

OMB views: OMB believes that the $25 million already proposed for 1978 is sufficient because:

- Proliferation of categorical grant programs should be resisted in preference for a broader block grant legislative initiative.
- The major subprogram is not limited to safety projects. Only a fraction would be obligated for safety.
- Only 20% of miles driven is on off-system roads--mostly intrastate. There is minimal Federal interest.
- A 1977 supplemental is especially unwarranted. There are $209 million in funds from expired off-system programs still available for obligation in 1977.
- Annual funding at a $138 million level will meet only 2% of designated off-system construction needs.

(This issue has not yet been reviewed by the Director.)

Department of Transportation

Issue: Should the Administration increase the 1978 Federal-aid Highway program level (obligations) above the $6.5 billion currently proposed?

Agency position: Department of Transportation believes that the 1978 program level should be raised by $0.9 billion and outlays by $0.2 billion. The 1978-1982 outlay effects would be more substantial. The Department's position is based on the following arguments:

- Congress will not accept levels lower than those proposed by the Department. (Congress enacted a $7.2B limitation in 1976 and 1977 and will see $6.5B as a reduction, though obligations were only $4.6B in 1976 and are estimated by OMB to be about $6.5B in 1977.)
- Constant dollar highway contruction has declined in recent years while highway needs have increased.
- There are safety and economic benefits from highway construction.
- It will create 54,000 direct employee-years of work (OMB's estimate is no more than 43,000 employee-years).

OMB views: OMB opposes the proposed increase because:

- Funding increases should await an Administration ground transportation legislative initiative.
- Total national highway expenditures are large and growing--from $17 billion in 1967 to $31 billion in 1977--without substantial Federal-aid increases.
- It appears that States will only be able to obligate about $6.5 billion in Federal-aid highway funds in 1977, whereas the allowable program level is more than $1 billion higher. There is no reason to believe that States will be able to use substantially more funds in 1978.
- There are not studies which indicate that highway system service levels have deteriorated.

Department of Transportation

Issue: The agency position would add $200 million in obligations for discretionary capital grants for mass transit. OMB proposes $50 million.

Agency position: Department of Transportation believes the January budget does not provide sufficient grant funds for transit bus and bus-related investments or for rail (subway and commuter) modernization projects. The department would also like to be relieved of the moratorium on the initiation of major rapid transit projects contained in the Ford budget. The department would also like to depart from the existing practice which does not fund major projects until funds have been provided to cover the full scope of such projects.

OMB views: OMB believes that only a $50 million increase associated with discretionary grants for transit buses is warranted. Other bus-related grants can be fully accommodated within the transit funding base or by highway grants which may also be used for transit purposes. No further increases are recommended for subway and rail-realted grants: $220 million from 1977 to 1978 are included in the January budget.

OMB recommends that the full funding concept and no new starts policy should not be changed until DOT and OMB reach an understanding on how the mass transit program can and will be controlled. Full funding is a government-wide practice. The temporary no-new-starts policy reflects the fact that several major projects are under construction while the actual benefits of the first major new systems (BART in San Francisco, METRO in Washington) which have begun operations are not developing as predicted. A thorough assessment is planned by DOT this year of where this Administration wants to go with surface transportation programs and legislation.

Department of Transportation
Redeemable Preference Shares

Issue: Should the present policy of using redeemable preference shares to facilitate desirable rail mergers and consolidations be replaced by a policy which emphasizes the creation of jobs, improvement in rail facilities, and the payback of the Federal investment? The agency position would add $125 million in BA and $80 million in outlays in 1977 and $175 million in BA and $180 million in outlays in 1978.

Agency position: Redeemable preference shares represent a very flexible form of interim assistance to freight railroads. They are a form of non-voting preferred stock which, essentially, allows a governmental equity investment in a private corporation through long term low interest loans. Preference shares should be used to show Federal commitment to the rail industry while studies of rail problems are underway for the next year. Although there is a need to restructure the industry, it is an inappropriate policy for interim assistance. Emphasizing mergers may not get to the basic problems of the industry, take too long to get any assistance to the industry, and may not be influenced by offers of financial aid. Emphasis should be placed on jobs, help to the industry, and payback to the government. This proposal creates some 2,600 and 5,100 workyears of employment in 1977 and 1978 respectively.

OMB views: The Department's proposal is not an adequate replacement for the present policy. Any use of preference shares would create jobs and improve rail facilities. The key is to determine where the jobs are created and which facilities are improved. The Department has not had time to formulate its priorities to do this. A total of $800 million in loan guarantee authority is already in the budget through 1978. These guarantees can immediately accomplish the Departments objectives of creating jobs and helping the industry. Preference shares should be reserved for those high priority projects which facilitate change in the industry. OMB recommends that any budget amendment for this account be deferred until the Department can develop its priorities.

Department of Transportation

Issue: Additional $195M Interstate transfers for construction of METRO rapid transit in Washington, D.C., suburbs. ($350M already provided in the January budget.) The request by the Washington Metropolitan Area Transit Authority--a non-federal agency--would add $35 million in 1978 outlays.

Agency position: METRO wants a $744M construction program in 1978, $545M of which would be financed by canceling an equal amount of Interstate highway projects in this metropolitan area. The January budget provides $350M of Interstate transfers toward a $500M program. About $3.6B and 61 miles of METRO have been funded through 1977. The proposed $744M program would bring these cumulative totals to $4,3B and 84 miles. METRO contends that this level of spending in 1978 is necessary to maintain its construction schedule and to avoid further cost escalation. About $200M of additional funding would be needed beyond 1978 in order to make the 84 miles actually operational.

DOT view: (Unofficial). Most of the mileage METRO would like to begin to build in 1978 is under re-evaluation at the request of DOT. The January budget of $350M is a reasonable compromise between what METRO wants and the fact that major questions have been raised about the particular routes proposed for funding. Conversely, DOT does not want to upset the funding aranagements currently under development at the local level which would assure that 61 miles of METRO will clearly be built and put into operation.

OMB view: The $195M increase should be denied. The DOT has conditioned release of even the $350M upon satisfactory progress toward re-evaluation of most of the unbuilt portions of METRO. METRO is proposing to fund some of the least cost-effective parts of its system with the additional $195M. We should not pre-empt the results of the on-going independent re-evaluation which is utilizing the most advanced and proven transit planning and evaluation techniques in the country. METRO has not bee seriously re-evaluated since the mid-1960's when the 1990 population forecasts for the Washington area were almost one million higher than the most recent forecasts.

THE PRESIDENT HAS SEEN.

2/15/77

THE WHITE HOUSE
WASHINGTON

US/Mex economics
Trade problems
Petroleum - Mex Plans?
Prisoners - treaty
Narcotics - Eradication - Bourne
Undocumented workers
Science & Technology
Tourism
Special Channel
Andrew Daulton Lee - depositions

THE WHITE HOUSE

WASHINGTON

February 15, 1977

Bob Linder -

Reporting Burden Reduction Program

The attached memorandum was returned in the President's outbox.

It is forwarded to you for handling the delivery to the Heads of Executive Departments and Agencies.

After the memos have been prepared and are ready to go, please coordinate the sending of the Presidential memo with OMB as they too will be sending something out on this subject.

Rick Hutcheson

cc: Bert Lance
Jack Watson
Stu Eizenstat

X

THE WHITE HOUSE
WASHINGTON

cc: STM
JAMC
CANCE

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE HEADS OF

EXECUTIVE DEPARTMENTS AND AGENCIES

As I outlined in the Cabinet meeting on Monday, January 24, I am determined to improve the efficiency and effectiveness of the Executive Branch. As part of this improvement, I place a high priority on reducing the burden which reporting to the Federal Government places upon the American public.

My predecessor launched a program to secure a modest five percent reduction in reporting burden by September 30, 1977. I am dismayed to learn that the executive departments and agencies have made virtually no progress toward the achievement of that goal.

To assure that this matter receives your continuing attention, I want you to assume personal responsibility for the successful fulfillment of this task and for achieving the purposes of the Federal Reports Act as they relate to your agency. You may delegate authority, but any such delegation must be unambiguous and must run directly to yourself.

Please determine personally:

(a) How many reports does my agency receive?

(b) How many can be combined or eliminated?

(c) How can they be simplified?

(d) Can less frequent reports serve adequately?

(e) Can major departments, agencies and sub-agencies share the same report?

I do not look upon the task of reducing the reporting burden on the public as a one-shot campaign. It is a continuing problem. Routine efforts to deal with it will not suffice. You should review your agency's data collection activities to find ways of carrying out your program responsibilities in a manner which will reduce the paperwork burden on the public.

Assess reports now required by law. You should develop recommendations for changes in legislation which might permit further reductions in reporting in the future.

I have assigned to the Director of the Office of Management and Budget responsbility for exercising general oversight over the reporting burden reduction program. When possible, apply to existing forms the OMB restraints on new forms and reports.

I anticipate your wholehearted and enthusiastic support in achieving these goals. I want each of you and your staff to cooperate fully with the Commission on Federal Paperwork, which is pursuing a broad inquiry into matters relating to paperwork generated by Federal agencies and its impact on the public.

Finally, report to OMB by March 31 the goal of your agency for reduction of required reporting which will be achieved by September 30, 1977, plus other recommendations concerning legislation and cooperation with other agencies.

Jimmy Carter

THE WHITE HOUSE

WASHINGTON

February 14, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Bert Lance Memo 2/8/77 re: Reporting Burden Reduction Program

I agree with the OMB that specific guidelines are necessary to reduce the amount and burden of federal paperwork demands upon the public. I do, however, have some comments on the proposal by the OMB.

There are basically two parts to the OMB directive: 1) reducing the number of federal forms; and 2) reducing the burden imposed by federal forms, whatever their number.

1. Reducing the number of federal forms.

The ceiling contained on the memo for the number of forms which an agency may require is exactly the same ceiling which President Ford promulgated on July 23, 1976. This ceiling is still in effect.

Hence, this directive does not represent a further step forward in reducing the number of forms required.

It may be helpful politically to reduce the maximum number of forms allowed, so as to go beyond the effort initiated by your predecessor. I am not in a position to judge whether a stricter reducing ceiling is feasible, however.

2. Reducing the burden imposed by federal forms.

The OMB objective is to reduce the burden of public reporting by seven million hours by September 30, 1977. This is done because while the number of forms may be reduced, the actual burden of forms is not necessarily affected.

Again, this is the same goal established by President Ford. Your action would not be an added step in reducing the burden.

However, agencies have not been making much progress in reaching this goal, so your action could be significant in urging them to strengthen their efforts.

One difficulty with the OMB proposal is that it has not tied together the very strict guidelines for reducing the number of forms with guidelines for reducing the existing burden imposed by them.

I understand that this is an area that defies precise measurement, so it may be that the OMB simply cannot impose stricter guidelines for reducing the burden. That being the case, a strong statement from you on the importance you attach to reducing the burden of forms may be essential.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 8, 1977

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: BERT LANCE

SUBJECT: REPORTING BURDEN REDUCTION PROGRAM

I recommend that you sign the attached letter to Heads of Departments and Agencies as the first step in implementing your personal goal to reduce the burden of reporting by the public to Federal agencies.

I have also attached a copy of the implementing letter which I propose to sign immediately after your letter is distributed. In addition, OMB has prepared a tough set of guidelines which explicitly recognize that the time required by the public to provide information to the U.S. Government is a scarce resource.

Your letter and our guidelines make agency Heads responsible for more effective control of the data collection activities of their own agencies. The guidelines strengthen the control and clearance functions which have the operation of minimizing reporting burden.

RECOMMENDATION

Sign attached letter to implement forms reduction.

[✓] Approve [ ] Disapprove

Attachments

as amended - Let depts set own goals by 3/31

GUIDELINES FOR REDUCING PUBLIC REPORTING TO FEDERAL AGENCIES

I. GUIDELINES FOR CONTROLLING THE NUMBER OF REPORTS

Objective: To control the number of reports used by executive agencies while permitting a degree of flexibility.

A. A ceiling of 4,700 repetitive reports and 600 single-time reports is established for agencies in the executive branch subject to the provisions of the Federal Reports Act (44 U.S.C. 3501 - 3512).

B. Each department and independent agency has a ceiling on the number of repetitive reports and a ceiling on the number of single-time reports. The ceilings for each department and agency are set forth in Attachment A.

C. The following guidelines come into effect for any department or agency which reaches its ceiling. They will remain in effect until the number of repetitive reports and single-time reports used by the department or agency are reduced to the number in use on June 30, 1976.

(1) No request for clearance of a new report is to be made unless:

(a) the report is specifically required by law, or

(b) the report is required to obtain information specifically requested by Congress, or

(c) the request for clearance of the proposed new report is accompanied by a request for the elimination of an existing report. The elimination of an existing single-time report is not acceptable as an offset to the introduction of a repetitive report, or

(d) an exception is granted per guideline I-C(3).

(2) No request for clearance for the continued use of an existing report is to be made unless:

(a) the report is specifically required by law, or

(b) the request for clearance is accompanied by a request for the elimination of an existing report. The elimination of an existing single-time report is not acceptable as an offset to the continued use of a repetitive report, or

(c) an exception is granted per guideline I-C(3).

(3) If the head of a department or agency determines that there is no approved report which can be eliminated in order to meet the requirements of C(1)(c) or C(2)(b) above, he may request an exemption from these guidelines by certifying his determination to the Director of the Office of Management and Budget. It is intended that this determination, certification, and request for exemption be made by the head of the department or agency and not by any person to whom he has delegated his clearance authority.

(4) If an exemption is granted by the Director, it will apply only to a specific request for clearance. A separate determination, certification, and request for clearance must be made for each case for which an exemption is sought.

D. In some cases one agency collects information on behalf of another. In such a case, if the data collection involves a separate survey, the agency which sponsors the collection of information from the public shall have the data collection included in its inventory of reports and estimated reporting burden.

II. GUIDELINES FOR REDUCING REPORTING BURDEN

Objective: To reduce the burden of public reporting by 7,000,000 hours by September 30, 1977. The reduction is to be achieved in the burden of reporting associated with repetitive reports. The burden of reporting associated with single-time reports is to be no higher on September 30, 1977 than it was on June 30, 1976.

A. Guidelines for agency use in achieving a reduction in reporting hour burden of existing or prospective data collections.

(1) Review the essentiality of the report. Request clearance only for those reports which are essential to policy decisions, program planning, management or evaluation.

(2) Review the practical utility of the information collected. If it is not used for reasons beyond the agency's control, do not collect it even though it may be "needed." (~~See paragraph 4, Attachment A,~~ OMB Circular No. A-40, ~~Transmittal Memorandum~~ No~~. 1, February 10, 1976.)~~

(3) Reexamine use of samples, cutoffs, and similar techniques which can reduce reporting burden. If these techniques are not being used, why can't they be used? If they are being used, can the samples be reduced or cutoff levels raised?

(4) Reexamine the need for frequency of data collection. Would less frequent data collection adequately serve minimum department or agency needs?

(5) Consider the possible use of "short" forms for use by individuals or by small organizations when an inquiry is addressed to a universe or sample containing large organizations, small organizations, and/or individuals.

(6) Address special efforts to a reexamination of the use of information collected by "large burden" programs such as medicare and medicaid, the food stamp program of the Department of Agriculture, and the like. Such special efforts should concentrate on an evaluation of the practical utility of the information collected.

B. Guidelines to be used by OMB in review of requests for clearance.

(1) Applications. No request for clearance of a new application form or for the continued use of an existing application form will be granted for forms which contain anything other than the information necessary to determine (1) whether the applicant is eligible to receive the benefit applied for or (2) the amount of benefit to which an eligible applicant is entitled.

When narrative statements are required as part of an application, reporting instructions are to be explicit as to what is needed.

An agency which requires the name or names of project directors/principal investigators (and information on their staffs) as part of an application is required to present a specific justification for such information in its request for clearance under the Federal Reports Act and to describe the consequences of not receiving it.

(2) Program evaluation. Reporting and data collection required for program evaluation must directly contribute to the assessment of the degree to which program goals have been achieved or to the assessment of the effects of programs or their processes or management. Acquisition of large amounts of descriptive data not directly relevant to these purposes is to be avoided.

(3) Other management reports. No report is to be required of an employer of fewer than 100 employees unless the report is specifically required by law or unless the report is consequent to a benefit received.

(4) Statistical surveys or reports. No statistics program which collects information annually or more frequently shall be designed to produce geographic detail below national totals for the United States unless:

(a) the information is required by law more frequently than would be provided by a census and

(b) cannot be obtained from existing administrative records or

(c) the data collection is an integral part of a specific Federal-State cooperative program or of a specific Federal-local government cooperative program.

Federal agencies are not to engage in any data collection activities which are not financed wholly by Federal funds, except data collection which is undertaken as a consequence of cooperative efforts with State and/or local governments.

It is expected that data collections for statistical purposes will have a response rate of 75 percent. Proposed data collections having an expected response rate of less than 75 percent require a special justification. Statistical data collection activities having a response rate of under 50 percent should be terminated. Proposed statistical data collection activities having an expected response rate of less than 50 percent will be disapproved.

An agency will make every reasonable effort to assure that no individual and no employer of fewer than 100 is included in more than one of its statistical samples at the same time.

(5) Data collection for research purposes. Data collections for research purposes will be approved only if (1) they test a stated hypothesis or (2) they are part of an investigation designed to

discover new facts or principles in a specified area of knowledge. The anticipated benefits expected from the data collection and the consequences of not engaging in the proposed data collection are to be specified.

(6) Grant-in-aid reporting. Grant-in-aid programs are expected to use the uniform grant reporting procedures set forth in FMC 74-7 and OMB Circular Nos. A-110 and A-111. Agencies may ask for less information than is included in the uniform grant reporting procedures, but may not ask for more information unless (1) the additional information is specifically required by law or (2) is specifically required by Congress even though not required by law.

Grant-in-aid reporting shall be required only of the grant recipient. Reports from subgrantees, projects, or ultimate beneficiaries are not to be required unless specifically required by law or by Congress.

(7) Exemptions from these guidelines. The head of a department or independent agency may request an exemption from any of these guidelines for a particular case. A request for such an exemption may be made only by the head of the department or agency and may not be made by anyone to whom clearance responsibilities may be delegated. A request for exemption must describe why the particular exemption sought is necessary to the proper performance of the department's or agency's functions.

III. GUIDELINES FOR REDUCING REPORTING BURDEN SUBSEQUENT TO SEPTEMBER 30, 1977

Objective: To recommend changes in legislation which would achieve an additional reduction of reporting burden.

A. During FY 1977 identify legislative sources of specific reporting and recordkeeping requirements which the department or agency regards as excessive.

B. Recommend specific changes in legislation which could reduce the excessive reporting or recordkeeping requirement. These recommendations are to be reported quarterly to OMB, beginning March 31, 1977, together with an estimate of the savings in reporting burden which could be secured if the recommendations were enacted.

Attachment A

CEILINGS FOR REPETITIVE REPORTS

Department of Agriculture	726
Department of Commerce	527
Department of Defense	211
Department of Health, Education, and Welfare	850
Department of Housing and Urban Development	254
Department of the Interior	296
Department of Justice	166
Department of Labor	251
Department of State	31
Department of Transportation	272
Department of the Treasury	130

Agency for International Development	20
Energy Research and Development Administration	29
Environmental Protection Agency	56
Executive Office of the President	13
Community Services Administration	11
Federal Home Loan Bank Board	12
Federal Mediation and Conciliation Service	2
Federal Reserve System	12
Foreign Claims Settlement Commission	1
National Foundation on the Arts and Humanities	20
General Services Administration	49
National Aeronautics and Space Administration	23
National Mediation Board	3
National Science Foundation	55
ACTION	23
Railroad Retirement Board	118
Renegotiation Board	4
Selective Service System	6
Small Business Administration	22
Smithsonian Institution	9
Tennessee Valley Authority	20
U.S. Civil Service Commission	132
U.S. Commission on Civil Rights	1
U.S. Information Agency	9
U.S. International Trade Commission	9

Repetitive Reports (continued)

Veterans Administration	283
National Gallery of Art	2
Interim Compliance Panel	
National Credit Union Administration	5
Overseas Private Investment Corporation	2
Special Action Office for Drug Abuse Prevention	
American Revolution Bicentennial Administration	5
Committee on Products and Services of Blind and Severely Handicapped	4
Inter-American Foundation	2
Pension Benefit Guaranty Corporation	1
U.S. Postal Service	
National Academy of Sciences	1
National Center for Productivity	1
Administrative Conference of the United States	1
Commission on Review of National Policy toward Gambling	1
National Commission on Libraries and Information Science	1

CEILINGS FOR SINGLE-TIME REPORTS

Department of Agriculture	35
Department of Commerce	76
Department of Defense	13
Department of Health, Education, and Welfare	230
Department of Housing and Urban Development	23
Department of the Interior	22
Department of Justice	11
Department of Labor	18
Department of State	1
Department of Transportation	53
Department of the Treasury	7

Agency for International Development	
Energy Research and Development Administration	
Environmental Protection Agency	14
Executive Office of the President	1
Community Services Administration	1
Farm Credit Administration	
Federal Home Loan Bank Board	
Federal Mediation and Conciliation Service	
Federal Reserve System	
Foreign Claims Settlement Commission	
National Foundation on the Arts and Humanities	6
General Services Administration	1
National Aeronautics and Space Administration	
National Mediation Board	
National Science Foundation	7
ACTION	6
Railroad Retirement Board	
Renegotiation Board	
Selective Service System	
Small Business Administration	
Smithsonian Institution	
Tennessee Valley Authority	5
U.S. Civil Service Commission	2
U.S. Commission on Civil Rights	2
U.S. Information Agency	
U.S. International Trade Commission	21

Single-Time Reports (continued)

Veterans Administration	10
National Gallery of Art	
Interim Compliance Panel	
National Credit Union Administration	
Overseas Private Investment Corporation	
Special Action Office for Drug Abuse Prevention	
American Revolution Bicentennial Administration	
Committee on Products and Services of Blind and Severely Handicapped	
Inter-American Foundation	
Pension Benefit Guaranty Corporation	
U.S. Postal Service	
National Academy of Sciences	2
National Center for Productivity	1
Administrative Conference of the United States	1
Commission on Review of National Policy toward Gambling	2
National Commission on Libraries and Information Science	1

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE HEADS OF

EXECUTIVE DEPARTMENTS AND AGENCIES

As I outlined in the Cabinet meeting on Monday, January 24, I am determined to improve the efficiency and effectiveness of the Executive Branch. As part of this improvement, I place a high priority on reducing the burden which reporting to the Federal Government places upon the American public.

My predecessor launched a program to secure a modest five percent reduction in reporting burden by September 30, 1977. I am dismayed to learn that the executive departments and agencies have made virtually no progress toward the achievement of that goal.

Assess reports now required by law.
~~I want to achieve that objective as a minimum~~. You should ~~also~~ develop recommendations for changes in legislation which might permit further reductions in reporting ~~burden~~ in the ~~years ahead~~. future.

To assure that this matter receives your continuing attention, I want you to assume personal responsibility for the successful fulfillment of this task and for achieving the purposes of the Federal Reports Act as they relate to your agency. You may delegate authority, but any such delegation must be unambiguous and must run directly to yourself.

A

I do not look upon the task of reducing the reporting burden on the public as a one-shot campaign. It is a continuing problem. Routine efforts to deal with it will not suffice. You should review your agency's data collection activities to find ways of carrying out your program responsibilities in a manner which will reduce the paperwork burden on the public.

I have assigned to the Director of the Office of Management and Budget responsibility for exercising general oversight over the reporting burden reduction program. When possible, apply ~~cont~~ to existing forms the OMB restraints on new forms and reports.
I anticipate your wholehearted and enthusiastic support in achieving these goals.

~~Finally,~~ I want each of you and your staff to cooperate fully with the Commission on Federal Paperwork which is pursuing a broad inquiry into matters relating to paperwork generated by Federal agencies and its impact on the public.

Jimmy Carter

4 Please determine personally:

a) How many reports does my agency receive?
b) How many can be combined or eliminated?
c) How can they be simplified?
d) Can less frequent reports serve adequately?
e) Can major departments, agencies and sub-agencies share the same report?

Finally, report to OMB by March 31 the goal of your agency for reduction of required reporting ~~and~~ which will be achieved by September 30, 1977, plus other recommendations concerning legislation and cooperation with other agencies.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE HEADS OF

EXECUTIVE DEPARTMENTS AND AGENCIES

~~As I outlined in the Cabinet meeting on Monday, January 24, I am determined to improve the efficiency and effectiveness of the Executive Branch. As part of this improvement, I palc~~

Jimmy

Jimmy

The President

1978 BUDGET REVISION
PRESIDENTIAL REVIEW
Department of Labor

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Bert Lance

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

Re: Briefing Book: Meeting on FY 1978 Budget Revision. February 14, 1977.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN.

C

MEETING ON FY 1978 BUDGET REVISION
Monday, February 14, 1977
The Oval Office
545 PM

FROM: W. Bowman Cutter WBC

I. PURPOSE

To make decisions on budget revisions related to the economic stimulus package. In addition, other Labor Department issues may be brought up for decision.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: Budget guidance information developed for implementation of the economic stimulus program was sent to the Secretary of Labor in conjunction with revision of the 1978 budget. OMB and the Department of Labor would now like to present to you those issues that need your decision. Supporting materials are included in the attachment.

B. Participants: Bert Lance, F. Ray Marshall

C. Press Plan: White House photographer

DEPARTMENT OF LABOR

DEPARTMENT OF LABOR

Major Agency Functions

The Department of Labor consists of the following agencies:

- Employment and Training Administration (ETA), which fully funds the 30,000 person State-run Employment Service which attempts to match job-seekers and jobs; provides grants to 430 State, local and Indian "prime sponsors" for locally designed programs to train or otherwise prepare the disadvantaged for jobs; funds public service jobs through the same prime sponsors in areas of high unemployment (CETA Title II), throughout the country as a countercyclical measure (CETA Title VI), or for youth in the summer; operates the Job Corps to provide training in residential settings for disadvantaged youth; funds other training and employment programs for migrant and seasonal farmworkers and other special groups; and operates the Federal-State Unemployment Compensation system.

- Labor-Management Services Administration (LMSA), which administers the Department's portion of the private pension reform act, the Landrum-Griffin Act requiring reporting and disclosure of union finances and regulating union elections, and the Federal Government's internal labor-management relations program.

- The Pension Benefit Guaranty Corporation (PBGC), which insures private pension plans.

- The Employment Standards Administration (ESA), which enforces minimum wage and overtime standards; the laws forbidding discrimination in employment on the basis of age and requiring equal pay for equal work regardless of sex; and labor standards for Government contractors, including requirements for payment of prevailing wage and affirmative actions to prevent employment discrimination against minorities, women, handicapped, or veterans. It also operates workers compensation programs for Federal employees, longshore and harbor workers, and coal miners with black lung.

- The Occupational Safety and Health Administration (OSHA), which sets workplace health and safety standards, inspects businesses for compliance with the standards, and funds State programs found to be at least as effective as the Federal program.

- The Bureau of Labor Statistics (BLS), which provides statistics on the labor force (including employment and unemployment), prices and the cost of living, wages and industrial relations, and productivity.

- The Bureau of International Labor Affairs (ILAB), which determines if groups of workers are unemployed as a result of increased imports, and are thus eligible for special benefits.

Budget Summary
(In millions of dollars)

	1977		1978	
	BA	Outlays	BA	Outlays
Budget guidance	24,773 1/	24,848	20,976 1/	26,028
Agency proposed changes	+734	-643	6,039	-157
Agency estimate	25,507	24,385	27,015	25,871
OMB recommended changes to agency estimate	+1,776 2/	-42	+168 2/	-537
OMB recommendation	27,283	24,343	27,183	25,334
Memorandum:				
January Budget estimate	24,773	23,833	20,998	19,963
Full-time permanent employment (OMB recommendation)	16,487		16,619	

1/ The Guidance letter said "Plus whatever is needed to support the fiscal stimulus package."
2/ Reflects an OMB alternative to accomplish the intent of the fiscal stimulus package.

DEPARTMENT OF LABOR

ANALYSIS OF REVISIONS TO THE 1978 BUDGET
(In millions of dollars)

	1977				1978			
	Agency recommendation		OMB recommendation		Agency recommendation		OMB recommendation	
	Budget Auth.	Outlays	Budget Auth.	Outlays	Budget Auth.	Outlays	Budget Auth.	Outlays
Total, Budget guidance	24,773[1]	24,848	24,773[1]	24,848	20,976[1]	26,028	20,976[2]	26,028
Changes:								
Fiscal stimulus package								
Public Service Employment*..	-160	---	+2,554[2]	---	+5,363	+1	+5,451[2]	+1
Other*.....................	+1,498	+20	+600[2]	---	+1,203	+21	+1,600[2]	---
Administrative cost	+8	+8	+2	+2	+17	+17	+3	+3
Restore Secretarial Discretionary funds*........	---	---	---	---	+125	+125	---	---
Increase Summer Youth preliminary estimate to 1977 level*.............	---	---	---	---	+70	+70	---	---
Provide for 1978 inflation*...	---	---	---	---	+85	+85	---	---
Increase Migrants and Indian setasides	+22	+11	---	---	+22	+22	+22	+22
Withdraw Work Incentive legislative proposal	---	---	---	---	+21	+21	+21	+21
Continue Federal Supplementary Unemployment benefits	---	+500	---	+500	---	+600	---	+400

* Items to be discussed.
1/ The Guidance letter said "Plus whatever is needed to support the fiscal stimulus package."
2/ Reflects an OMB alternative to accomplish the intent of the fiscal stimulus package.

Labor: Analysis of Revisions - cont.

	1977 Agency recommendation Budget Auth.	1977 Agency recommendation Outlays	1977 OMB recommendation Budget Auth.	1977 OMB recommendation Outlays	1978 Agency recommendation Budget Auth.	1978 Agency recommendation Outlays	1978 OMB recommendation Budget Auth.	1978 OMB recommendation Outlays
Increase Employment Service (ES) staff	---	---	---	---	+2	+22	---	---
Increase Unemployment Insurance Service (UIS) staff	---	---	---	---	---	+16	---	+8
Increase OSHA inspection staff	---	---	---	---	+6	+6	---	---
Increased evaluation, research, and development..	+1	+1	#	#	+14	+7	+3	+3
Fund new Commissions	+10	+4	---	---	+1	+8	---	---
Miscellaneous	+4	+4	+3	+3	+10	+11	+7	+7
Revised economic assumptions (estimate)	-649	-1,010	-649	-1,010	-900	-1,189	-900	-1,158
Total, with revisions	25,507	24,385	27,283	24,343	27,015	25,871	27,183	25,334
January Budget	24,773	23,833	24,773	23,833	20,998	19,963	20,998	19,963

Less than $500 thousand.

DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

1978 BUDGET REVISIONS
(In millions of dollars)

Fiscal Stimulus Package - Public Service Jobs

			1977			1978		
		1976 Actual	Agency Recom.	OMB Alt.	Diff.	Agency Recom.	OMB Alt.	Diff.
CETA Title II	BA	400	524	400	-124	1,016	400	-616
	O	544	524	400	-124	1,016	400	-616
CETA Title VI	BA	2,825	2,100	4,938	+2,838	4,747	5,451	+704
	O	1,887	2,949	3,073	+124	4,872	5,488	+616
Total PSE	BA	3,225	2,624	5,338	+2,714	5,763	5,851	+88
	O	2,431	3,473	3,473	--	5,888	5,888	--

Agency Recommendation:

The Department recommends: add-ons for Comprehensive Employment and Training Act, Title II of 50,000 in 1977 and 75,000 in 1978; add-ons for Title VI of 240,000 in 1977 and 340,000 in 1978. The split is to provide some support (Title II) for regular jobs in States and localities for individuals they would normally hire.

OMB Alternative:

OMB suggests, on programmatic grounds, shifting all the add-on to Title VI. There is no programmatic reason for the Title II increase (except for some degree of geographic targeting, but the Title VI formula is already heavily weighted to areas of high unemployment). Title II is generally considered the "permanent" public jobs program, thus aggravating the already difficult issue of phaseout when the economy improved. If projects do prove more difficult to start up than Labor anticipated (which is possible), this shift loses some of the hiring we could otherwise show in 1977, but we would expect to be caught up in early FY 1978. In any case, CEA does not attribute any net employment impact to the Title II program. ?

Both the Labor and OMB recommendation require 81 Federal staff.

Budget Authority for Projects

The OMB alternative would seek appropriations each year sufficient to finance the full 12-months of each project a locality starts, even though the project runs into the next year. This approach assures localities of the continuity of funding for the projects and should facilitate planning. It also provides a relatively automatic phasedown into 1979 as each project started in 1978 is completed. It does not preclude added appropriations in 1978 or 1979 if conditions warrant.

DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

1978 BUDGET REVISIONS
(In millions of dollars)

50,000 people
40,000 Forest
11,000 Interior

Fiscal Stimulus Package - Manpower Services to Target Groups

	1976 Actual	1977 Agency Recom.	1977 OMB Alt.	1977 Diff.	1978 Agency Recom.	1978 OMB Alt.	1978 Diff.
Budget authority	NA	1,498	600	-898	1,203	1,600	+397
Outlays	NA	320	300	-20	1,622	1,600	-22

Agency Recommendation:

The Department's request includes a federally directed program which requires ~~440 staff~~ in Labor and 3,000 to 5,000 in Agriculture and Interior for the rural youth program. no

Phaseout. The Department has not considered this an important requirement and indicated in our budget hearing that it really expects most of the programs to continue after 1978.

Change in manpower strategy. Labor believes that the Federal Government must place specific requirements on prime sponsors in terms of the type of service to be provided for each target group (e.g., on-the-job training (OJT), skill training) and must have close Federal direction in order to "ensure quality." Labor points out that prime sponsors have not devoted as large a proportion of programs to the disadvantaged as did predecessor programs (67% vs. 78%) and have used less skill training and on-the-job training. Labor has plans to follow up the stimulus package by placing similar Federal design requirements on prime sponsors in the regular CETA Title I block grant program.

OMB Alternative

OMB suggests that funds could be allocated in grants to prime sponsors specifying target groups and goals but leaving design specifications to States and localities. Only 44 more Federal staff would be required for this approach.

1. Phaseout. The Labor programs should phase out after the need for fiscal stimulus goes away. Any Federal program is difficult to terminate, but special short-term additions to State and local manpower programs have the best chance of being phased out. Categorical programs create new constituencies to lobby for continuation. Programs like the Job Corps and a proposed Rural Youth Conservation Centers require substantial capital investment and creation of special Federal and contractor staffs to run the centers. It would be wasteful to use the centers for just a short time.

2. Manpower strategy. The Office of Management and Budget alternative would make the minimum change in the present manpower strategy. Although groups to be served would be specified, States and localities could design the services they believe best fit their local situation. There is no evidence that the change in clientele served or services provided under CETA indicate a failure of the CETA system. Economic conditions and different statutory provisions explain much of the change. In recent years, more of the unemployed have been the non-disadvantaged. The general lack of jobs makes on-the-job training very difficult, and also makes it difficult to determine what skills to train. It should be noted that the Labor program proposals will serve many not classified as disadvantaged. CETA evolved from recognition in the 1960's that separate categorical programs cause overlap and confusion locally, and that program designs can legitimately differ from place to place.

DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

1978 BUDGET REVISIONS
(In millions of dollars)

Discretionary Funds

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Budget authority	268	281	281	--	277.5	152.5	-125
Outlays	204	181	181	--	277.5	152	-125

Agency Recommendations:

The discretionary funds at issue are utilized to provide additional employment and training assistance to special groups, mount new programs, and otherwise supplement CETA block grants. The Secretary wishes to have this flexibility to develop his own programs, especially in rural areas. These programs would be in addition to those he recommends for migrants and farmworkers in the stimulus package. No plan for use of the funds is currently available.

OMB Recommendation:

Discretionary resources are derived largely from the residuals of two Title I percentage setasides which provide for consortium incentives and for a year-to-year 90% hold harmless level for each sponsor. Excess funds in 1977 and 1978 result from unanticipated increases in Title I appropriations occurring in 1975 and 1977. They are not essential to the block grant programs. The Department still has over $100 million in uncommitted discretionary funds available in 1977 and not attributed in its submission to any of the stimulus or other spending items. The January Budget for 1978 provides adequate allowance (up to $20 million) for small temporary or emergency activity. New spending authority of the size requested ($125 million) should be separately justified on the basis of specific programs.

DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

1978 BUDGET REVISIONS
(In millions of dollars)

Summer Youth Employment Program

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Budget authority	563	595	595	--	595	525	-70
Outlays	544	595	595	--	595	525	-70

Agency Recommendation:

DOL requests an increase in the preliminary estimate for 1978 so as not to show a decrease from the 1977 program. DOL does not believe the level should be reduced, given the relatively high and lingering unemployment rates among youth. We do not know how the youth situation will change next year and thus there is no basis for reducing the estimate at this time. Staff also suggest that the Congress does not seriously expect the statutorily required March report on summer youth employment needs each year to be the basis for setting the program level. The proposed reduction, even though only a preliminary estimate, will represent an inconsistency within the total context of the budget proposals and will likely result in Congress appropriating even more than the $595 million.

OMB Recommendation:

Do not change the preliminary estimate. In 1976 the President's final request in March substantially exceeded the preliminary estimate and was over Congressional committee estimates. It was enacted. In the 1977 appropriation Congress did appropriate for the summer of 1977, not waiting for an Administration request. Whether or not the Congress was serious in its intent when it required the needs analysis, the concept of relating program size to an estimate of need as the summer nears is sound. The aim of the stimulus package is to reduce unemployment by the end of FY 1978. It would be inconsistent to say now that we expect to need in the summer of 1978 a program as large as the summer of 1977.

No decision is required now, since no formal request is before the Congress. Not changing the preliminary estimate does not preclude increasing it when the formal request is made. Increasing it may invite the Congress to enact the larger amount now, which may preclude attempts to maintain the preliminary estimate if the need does turn out to be lower.

If claims are made that keeping the lower estimate is inconsistent with the youth emphasis of the stimulus package, it can be pointed out that the other programs provide more intensive services than can be provided in a summer program.

DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

1978 BUDGET REVISIONS
(In millions of dollars)

Inflation Increases

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Budget authority	N/A	--	--	--	84.9	--	-84.9
Outlays	N/A	--	--	--	84.9	--	-84.9

Agency Recommendation:

The Department believes that failing to account for the effects of inflation must reduce the number of people which program operators will serve in 1978. It therefore proposes increasing the 1978 request for CETA Title I block grants, the regular migrant and Indian programs, and the Work Incentive Program (WIN) to compensate for anticipated inflation. To calculate the increase, the Department applied a factor of 6.8 percent to training and services based on the change in the implicit price deflators for GNP for State and local governments between the second quarters of 1975 and 1976, plus a factor of 8.4 percent to the administration cost category based on the change in GNP deflators for State and local salaries between 1974 and 1975. These factors were applied to a distribution of the 1977 program according to actual use in 1976.

OMB Recommendation:

There is no evidence of the degree of inflation impact on these programs. CETA especially is only in its third year of operation so costs for administration are still unsettled. The types of programs and services provided vary every year depending on sponsor assessment of local need. Since the costs of different services vary widely, there is no way of predicting exactly how many people will be served from year to year regardless of the presence or absence of inflation. There is also no reason to assume the inflation in 1978 will equal the 1975 or 1976 periods. There is no mechanism in the CETA law for allocating additional funds where local cost increases actually appear. Labor does not believe such mechanisms are necessary. They prefer to add an amount to the title and let the regular formula spread the funds.

Until there is evidence of the cost increases and a realistic approach for providing the funds, there is no reason to believe these add-ons are other than direct program increases. There are no justifications presented for program increases.

Govt-wide policy on inflation allowance?

DEPARTMENT OF LABOR

SUMMARY REPORT ON REVISIONS TO THE 1978 BUDGET
(In millions of dollars)

			1977			1978		
Adjusted programs		1976 Actual	Jan. Budget	Agency Recom.	OMB Recom.	Jan. Budget	Agency Recom.	OMB Recom.
Public Service Employment	BA	3,225	2,784	2,625	5,338	400	5,763	5,851
	O	2,431	2,758	3,473	3,473	1,400	5,888	5,888
Other Employment and Training	BA	1,953	2,317	3,836	2,917	2,216	3,619	3,819
	O	2,155	2,217	2,548	2,517	2,216	4,030	3,819
Work Incentive Program	BA	400	370	370	370	344	389	365
	O	307	365	365	365	344	389	365
Summer Youth Employment	BA	563	595	595	595	525	595	525
	O	459	595	595	595	525	595	525
Grants to States for Unemployment Insurance and Employment Services	BA	81	89	89	89	54	55	54
	O	1,395	1,552	1,552	1,552	1,574	1,599	1,569
Occupational Safety and Health	BA	117	130	130	130	135	140	135
	O	109	128	128	128	132	138	132
Unemployment Compensation	BA	13,745	17,709	17,060	17,060	16,600	15,700	15,700
	O	18,573	15,431	14,921	14,921	12,945	12,370	12,199
All Other	BA	306	349	372	354	379	409	389
	O	316	382	399	387	414	450	424
Subtotal, adjusted programs	BA	20,391	24,343	25,077	26,853	20,653	26,670	26,838
	O	25,745	23,428	23,981	23,938	19,550	25,459	24,921

DEPARTMENT OF LABOR

SUMMARY REPORT ON REVISIONS TO THE 1978 BUDGET
(In millions of dollars)

		1976 Actual	1977 Jan. Budget	1977 Agency Recom.	1977 OMB Recom.	1978 Jan. Budget	1978 Agency Recom.	1978 OMB Recom.
Non-Adjusted programs								
Workers' Compensation benefits	BA	302	341	341	341	324	324	324
	O	245	340	340	340	323	323	323
All Other	BA	85	90	90	90	22	22	22
	O	44	64	64	64	90	90	90
Subtotal, Non-Adjusted programs	BA	387	431	431	431	346	346	346
	O	289	404	404	404	413	413	413
Total, Department of Labor	BA	20,779	24,773	25,507	27,283	20,998	27,015	27,183
	O	26,035	23,833	24,385	24,343	19,963	25,871	25,334
Budget guidance, Department of Labor	BA			24,773 1/	24,773 1/		20,998 1/	20,998 1/
	O			23,833	23,833		19,963	19,963

1/ Plus whatever is needed for the fiscal stimulus package.

The President

1978 BUDGET REVISION
PRESIDENTIAL REVIEW
Health, Education, and Welfare

C

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Bert Lance -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Jack Watson
Stu Eizenstat

Re: Meeting on FY 1978 Budget
Revision for HEW

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN.

MEETING ON FY 1978 BUDGET REVISION
Tuesday, February 15, 1977
The Oval Office
12:00 Noon

FROM: W. Bowman Cutter

B

I. PURPOSE

To make decisions on budget revisions for the Department of Health, Education, and Welfare.

II. PARTICIPANTS

Bert Lance
Joseph Califano
Bo Cutter
Jim McIntyre

Higher Education Student Assistance:

	(Budget Authority in Millions) 1978			
	Current Services	Ford Budget	OMB/HEW	Change From Current Services
Basic Educational Opportunity Grants	$1,844	$1,844	$2,316	$ +472
National Direct Student Loans	338	15	15	-323

Discussion:

-- Increase

- Reaffirms the policy toward use of student aid to advance equal opportunity; puts dollars above the current services levels in the Basic Grant program--the best way to distribute funds to lowest income students.
- Increases maximum student award from $1,400 to $1,600.
- Increases number of students benefiting from 2 to 2.5 million.

-- Decrease

- Reduction of $323 million for Direct Loans recognizes relative ineffectiveness of program in targeting aid on the most disadvantaged.
- Action would eliminate new contributions of Federal student loan capital to post secondary institutions, relying instead on Guaranteed Student Loan Program (loans from private lenders).
- Also, $276 million is available for relending under Direct Loan Program from loans which have been paid back.
- Elimination of new capital contributions in Direct Loan Program would result in reduction of student loans from 1,125,000 to 553,000.

Congressional Reaction:

- Congress will respond favorably toward the increase in the Basic Grant maximum award from $1,400 to $1,600--half way toward $1,800.
- At the same time, Congress will criticize Administration for failing to fund "statutory minimum" for Direct Loans--$286 million.

SOME SENSITIVE MATTERS

(a)	Mental Health Centers	These are held to current service levels of $223 million rather than the $254 million HEW originally sought. ok OMB rationale is that we are awaiting the recommendations of the proposed new Commission on Mental Health.
(b)	CETA and Public Works Funds	It is our view that highest priority should be given in the allocation of public works money in the Commerce Department budget to the rebuilding of urban schools and construction of multi-county schools. Similarly, for CETA funds in the Labor Department, high priority should be given to teaching aide positions. agree
(c)	Items Below Current Services	The following programs accept cuts recommended by President Ford totaling $943 million below current services.

Health Professions Education — $ 135 million

Eliminates capitation payments to veterinary, optometry, podiatry and pharmacy schools; reduces student aid to all health professionals; and reduces support for nursing from $121 to $24 million. ok

Impact Aid — $ 398 million

Eliminates all payments to children whose parents work but do not live on Federal property (virtually all Congressional districts) and public housing children. ok

National Direct Student Loans -$323 million

Eliminates the Federal Capital Contribution to loan program administered by colleges which provides low interest (3 percent) loans to students. ok

General Research Support Grants -$41 million

Eliminates research support provided by the National Institutes of Health on a formula basis to medical schools and graduate departments of science. ok

Other smaller dollar items -$44 million

These include elimination of support for pre-doctoral training by NIH, social work training by the Social and Rehabilitation Service and a phase down of the Cuban Refugees program. ok

(d) <u>Reductions in Social Security Benefits</u>

The budget proposed to accept a $777 million reduction in social security benefits which were contained in the Ford budget and which will require legislation. These savings are:

Limitation of dependents' benefits for students to the maximum grant being funded for the Basic Opportunity Grant Program	- $88 million ok
Elimination of the retiree's option to receive up to 12 months of retroactive benefits if future monthly benefits would be lower as a result	- $396 million ok
Measurement of the earnings of retiree can receive without losing benefits on an annual rather than a monthly basis	- $173 million ok
Elimination or modification of a number of provisions in current law to simplify administration of the program and improve public understanding	- $120 million ok
TOTAL	- $777 million

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Major Agency Functions

The Department of Health, Education, and Welfare (HEW) has as its basic mission the administration of programs which will improve the well being of the Nation's citizens in the areas of health care, education, social services, income security and civil rights. The programs which HEW administers are addressed towards meeting some of the most fundamental of the human needs and rights of our citizens. The magnitude and complexity of the Department's responsibilities can be illustrated, in a limited statistical sense, by the fact that HEW currently administers over 375 individual programs.

For 1978, the Department proposes a budget of $162.4 billion or $3.4 billion above the estimate of the previous administration. The OMB recommendation would reduce this increase by $.8 billion. Agreement between OMB and the Department has been reached on all but six issues, which are identified in the material which follows.

Budget Summary
(in millions of dollars)

	1977		1978	
	BA	Outlays	BA	Outlays
Budget guidance	146,642	148,170	160,981	160,986
Exclude Work Incentives program 1/	- 370	- 365	- 344	- 344
Total guidance, excluding WIN	146,272	147,805	160,637	160,642
Agency proposed changes	+ 415	+ 56	+ 1,931	+ 1,754
Agency estimate, excluding WIN	146,687	147,861	162,568	162,396
OMB recommended changes to agency estimate	- 287	- 15	- 964	- 830
OMB recommendation	146,400	147,846	161,604	161,566
Memorandum:				
January Budget estimate (excluding WIN)	146,124	147,562	160,762	159,041
Full-time permanent employment (OMB recommendation)	142,350		143,150	

1/ The Work Incentive program is included in the Department of Labor totals.

Department of Health, Education, and Welfare
ANALYSIS OF REVISIONS TO THE 1978 BUDGET
(In millions of dollars)

	1977				1978			
	Agency recommendation		OMB recommendation		Agency recommendation		OMB recommendation	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Total, Budget guidance	146,642	148,170	146,642	148,170	160,981	160,986	160,981	160,986
Exclude Work Incentives program (in Department of Labor totals)	- 370	- 365	- 370	- 365	- 344	- 344	- 344	- 344
Total for HEW, excluding Work Incentives	146,272	147,805	146,272	147,805	160,637	160,642	160,637	160,642
Changes:								
Health								
Medicare reform*	---	---	---	---	---	+ 200	---	---
Child health assessment*	---	---	---	---	+ 250	+ 250	---	---
Cost controls 1/	---	---	---	---	- 134	- 43	- 134	- 43
Other health programs	- 31	+ 2	- 31	+ 2	+ 259	+ 182	+ 259	+ 182
Education								
Education for the disadvantaged, Title I*	---	---	---	---	+ 200	+ 10	+ 50	+ 3
Impact aid, public housing children*	---	---	---	---	+ 68	+ 52	---	---
Basic opportunity grants*	---	---	---	---	+ 208	+ 34	---	---
Direct student loans*	+ 287	+ 15	---	---	+ 288	+ 287	---	---
Other education programs	+ 331	+ 37	+ 331	+ 37	+ 414	+ 294	+ 414	+ 294
Income maintenance								
Old Age and Survivors Insurance and Disability Insurance Trust Funds 2/	---	---	---	---	---	+ 221	---	+ 221
Other income maintenance programs	- 172	+ 2	- 172	+ 2	+ 378	+ 267	+ 378	+ 267
Total, with revisions, excluding Work Incentives program	146,687	147,861	146,400	147,846	162,568	162,396	161,604	161,566
January budget, excluding Work Incentives program			146,124	147,562			160,762	159,041

*Items to be discussed.

1/ OMB concurs in the HEW recommendation to seek hospital cost containment legislation that would allow the HEW Secretary to set limits on increases in hospital reimbursements from all public and private payers. The proposed effective date of October 1, 1977, may be optimistic since most hospitals' fiscal years begin on July 1. Federal outlay savings assume a nine percent limit on increases in 1978 with an exceptions process to allocate an additional one percent of reimbursements for new capital and services and for relief of financial hardship.

2/ Social Security Financing--The revised budget totals assume enactment of over $700 million of certain cost savings legislation in the Social Security area previously proposed in the Ford budget. These are limitation on payment of student benefits; change in the retirement test; elimination of lump sum retroactive payments; and other simplifications.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL AND REHABILITATION SERVICE

1978 BUDGET REVISIONS
(In millions of dollars)

Comprehensive Health Assessments and Primary Care for Children
Medical Services Administration

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Budget Authority	--	--	--	--	250	--	-250
Outlays	--	--	--	--	250	--	-250

Agency Recommendation:

The HEW proposal would add $250 million to the $11.7 billion Medicaid program. At some point in the future, the new program would replace the current Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) segment of Medicaid. The EPSDT program is designed to screen and treat approximately 11.6 million low income children throughout the U. S. HEW feels that States have not properly executed the program since only three million children out of the 11.6 million eligible will be screened through 1978, and only 60% of those referred for treatment will actually receive it. HEW estimates that the new proposal will enable the State-run Medicaid program to reach one million additional children in 1978 and increasing amounts in out-years and to increase the treatment rate from 60% to 80%. Although the law requires substantial penalties for improper enforcement, HEW has encountered chronic problems in enforcement, e.g., the appeals process takes about two years. The new program differs from the EPSDT program with respect to target population, services, and financing in that it would:

Swine flu vs child immunization costs (Sen Bumpers) B2H4

Shift entire emphasis toward prevention

- eliminate dental screening;

- establish a national uniform income eligibility requirement of $5,500 for a family of four - the EPSDT program leaves eligibility determinations up to the States within certain broad guidelines;

- increase the Federal matching percentage from an average of 55%--based upon State per capita income--to 90%; and

- increase, in effect, the penalty from 1% of AFDC to 1% of Medicaid which is generally a larger Federal grant to the States.

OMB Recommendation:

We recommend that instead of starting up another new program, the existing $170 million Early and Periodic Screening, Diagnosis, and Treatment program administered within Medicaid be vigorously implemented. EPSDT will screen three million children in 1978 and increasing numbers of children in the out-years. The most persistent problem in preventive health services for low income children is not the lack of an appropriate public financing program, but lack of enforcement at the State level. State governments have been reluctant to invest in preventive health programs like EPSDT because they are labor intensive, very expensive, and the pay-off in improved health status is long-term and relatively unknown.

In addition, the new program should not be proposed at this time because it would:

- federalize the screening and treatment portion of the Medicaid program. Moreover, the proposed liberalization would involve substantial out-year costs and would represent a liberalization before cost containment has been achieved. The current EPSDT program allows State governments to establish income eligibility requirements within certain broad Federal guidelines. These eligibility limits vary by over $3,000 for a family of four from State to State whereas the new 90% matching program would set a national Federal ceiling of $5,500. This would increase that segment of families in which children, but not parents, are eligible for health care at no cost.

- Increase the number of HEW agencies administering the Medicaid program. Currently, the Social and Rehabilitation Service (the "welfare" part of HEW) administers Medicaid through State social services departments. This new proposal would be administered through State health departments. The Assistant Secretary for Health would be added as a second management locus for Medicaid both at the State level and within the Department of Health, Education, and Welfare.

- reduce the number of services from those required by law in the EPSDT program. The new proposal would exclude dental screening. This represents a retreat from EPSDT. Over 25% of current EPSDT referrals for treatment are for chronic dental disease.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

1978 BUDGET REVISIONS
(In millions of dollars)

Medicare Physician Reimbursement and Financing

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Budget authority	18,525	22,960*	22,960*	--	28,699*	28,699*	--
Outlays	17,779	21,991	21,991	--	25,622	25,422	-200

* Trust fund income from premiums will decrease by $40 million in 1977 and $182 million in 1978; income from general revenues will increase by the same amounts.

Agency Recommendation:

Physician Reimbursement. HEW would propose legislation to permit Medicare reimbursement of physicians on the basis of State-wide fee schedules. Medicare currently pays the lowest of the physician's actual or customary charge for a service up to and including the charge prevailing in his locality. In 1978 HEW would eliminate existing prevailing charge "trade areas" and set fees at the prevailing charge levels for the State as a whole. After 1978 the HEW Secretary would negotiate fee schedules with State medical societies. Physicians would be able to increase their Medicare charges by an average of 20% annually over five years until they reached the designated fees.

HEW would encourage physicians to accept the newly-set Medicare fee as full payment above the 20% coinsurance (i.e., accept "assignment") by requiring them to accept assignment on all or none of their Medicare patients. Physicians now may choose to accept assignment for some patients while billing others directly for fees above the Medicare recognized charges. HEW would place pressure on physicians to accept fee schedules for Medicare and younger patients as well through publication of State directories of the fees of individual physicians.

HEW also recommends cost-based reimbursement for the services of nurse practitioners and physician assistants practicing in clinics in "underserved" areas. Medicare currently pays charges for the services of physician extenders under the direct supervision of a physician. Only clinics that are federally funded, have a physician on site, and have adequate cost accounting methods may now receive cost reimbursement. The cost of such clinic services are often considerably higher than Medicare physician charges.

HEW makes the following major arguments in favor of the reimbursement reforms:

-- Fees schedules would curb physician fee inflation.

-- Fee schedules are less costly and complex to administer than the actual, customary, and prevailing charge system. Both physicians and Medicare beneficiaries will understand program benefits better.

-- State-wide Medicare charges and reimbursement of physician extenders will promote primary care services and allow rural areas to attract and retain physicians and clinics.

-- It is more equitable to pay physicians, regardless of their training or location within a State, the same fee for the same service.

Financing. HEW recommends one-year freeze on the monthly premium paid by Medicare beneficiaries for supplementary medical insurance (SMI). Without the freeze the premium would increase from $7.20 to $7.70 monthly, beginning July 1, 1977. Current law allows the premium to rise proportionately to increases in social security cash benefits. HEW justifies the freeze on the grounds that:

-- The premium is a more regressive financing mechanism than general tax revenues.

-- It will encourage all eligible beneficiaries to purchase SMI coverage.

-- It will aid States who buy SMI coverage for elderly Medicaid recipients.

OMB Recommendation:

Physician Reimbursement. We recommend against proposing Medicare physician reimbursement legislation at this time because:

-- The simplicity and ease of administration of fee schedules would help rationalize Medicare reimbursement, but it is not worth an incremental cost of $1 billion by 1981.

-- HEW states that the use of fee schedules and rural clinics will encourage outpatient care and thus will produce offsetting, long-term savings in hospital costs. Medicare experience with another alternative to hospitalization, home health services, indicates that hospital costs continue to rise with the availability and use of alternative services. Net Medicare costs will not decline if new services do not substitute for the old.

-- In Canada, use of fee schedules slowed the rate of increase in price per service more than in the U.S., but overall physician incomes in constant dollars increased faster than in the U.S. during the same period through an increased number of physician services.

-- By widening the gap between Medicare reasonable charges and Medicaid fees, the proposal could undercut State cost control efforts.

-- Increasing reimbursements to rural and primary care physicians will not cure geographic and specialty maldistributions of physicians. The level of Medicare payments is only one of many factors in a physician's choice of practice: personal background, medical education, cultural and social surroundings, medical environment for the practice, gross income and costs of living.

-- The combination of fee schedules and the "all or none" assignment policy could reduce the number of physicians who accept assignment. Medicare benefits will erode if more physicians choose to "extra bill" their patients.

We recommend instead that HEW review Federal programs promoting rural and primary health care, such as the National Health Service Corps and health professions special projects and capitation, and propose an integrated rural health strategy in the context of the 1979 budget.

Financing. We recommend in favor of a freeze of the Medicare SMI premium for one year at $7.20 a month.

cost?
increase next yr.?

Use of paramedics?

Where are the cuts?

-- The combination of fee schedules and the "all or none" assignment policy could reduce the number of physicians who accept assignment. Medicare benefits will erode if more physicians choose to "extra bill" their patients.

We recommend instead that HEW review Federal programs promoting rural and primary health care, such as the National Health Service Corps and health professions special projects and capitation, and propose an integrated rural health strategy in the context of the 1979 budget.

Financing. We recommend in favor of a freeze of the Medicare SMI premium for one year at $7.20 a month.

cost? increase next yr?

Use of paramedics?

Where are the cuts?

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

1978 BUDGET REVISIONS
(In millions of dollars)

Title I, ESEA - Education of the Disadvantaged
Office of Education

	1976	1977			1978		
	Actual	Agency Recom.	OMB Recom.	Diff.	Agency Recom.	OMB Recom.	Diff.
Budget authority	2,050	2,285	2,285	---	2,635	2,485	+150
Outlays	1,761	1,984	1,984	---	2,211	2,204	+7

Agency Recommendation: Seeks $150 million increase above OMB recommendation and $350 million above current services level. Since 1968, Title I spending for the disadvantaged has grown at only 3/4's the rate at which per pupil expenditures for all children grew. About $800 million would have to be added to reduce the gap in lost services over the past 10 years.

The appeal would reduce the gap by nearly 50 percent, a major step towards its full elimination. About 85 percent of the OMB recommendation would have to be used just to cover increased cost of existing services. The increase comes at a time when studies show improvement in the effectiveness of Title I.

OMB Recommendation: Title I, ESEA: Recommend staying with the Budget Guidance for Title I, ESEA in FY 1978 which provided a net increase of $200 million in FY 1978 above the FY 1977 appropriations level.

The HEW premise of budgeting to keep pace with non-Title I children's costs could lead to vast expenditures, without any clear relationship to effective compensatory per-pupil expenditures. This premise implicitly ignores non-Title I cost growth provided by local educational agencies and State educational agencies for disadvantaged children exclusive of Title I funds. This proposal would not result in increases in the number of children served. It proposes to increase the amount provided for each child currently served by an estimated $60 a child above the average of $375 per child. The OMB recommended level will increase the average to $400 per child. It appears to OMB that there is no program basis for correlating increased funding and increased achievement levels. Analysis indicates an ever increasing obligated balance in this program that indicates a certain inability of the program to absorb increased funding. For example, at the end of FY 1976, there was an estimated $938 million in obligated balances, although the FY 1976 new obligation level was nearly $1.9 billion.

More children - Same funding level?

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

1978 BUDGET REVISIONS
(In millions of dollars)

Impact Aid
Office of Education

	1976	1977			1978		
	Actual	Agency Recom.	OMB Recom.	Diff.	Agency Recom.	OMB Recom.	Diff.
Budget authority	704	793	793	-0-	723	655	+68
Outlays	599	847	847	-0-	724	672	+52

Agency Recommendation: HEW recommends that payments continue to be made for public housing children:

-- Elimination of support for public housing children would result in significant reductions in payments to large cities.

-- Public housing payments, as indicated above, are used to fund Title I-type programs of compensatory education for educationally disadvantaged children.

-- Reform of public housing provision, if undertaken at all, should not be handled piecemeal, but through legislation as part of an overall Federal strategy for serving the disadvantaged.

-- Use of appropriation language to eliminate public housing payments, as required by OMB allowance, is likely to be considered "point-of-order" by the Congress and jeopardize enactment of other reforms in 1978 Impact Aid Budget -- particularly elimination of certain "hold harmless" payments -- which can be accomplished without point-of-order language.

OMB Recommendation: Do not allow the requested increase for those children who are connected with low-cost public housing. This recommendation is based upon the following rationale:

-- While it is true that the bulk of the children served under this portion of the Impact Aid Act are economically disadvantaged, there is no guarantee that monies provided for these children must be used for them and not some other disadvantaged child within the same recipient school district. Thus, unlike Title I, ESEA, funds need not be spent specifically for the children for whom they are provided.

-- Providing funding for this provision, traditionally cited as one of those areas where the necessity of Federal support is questionable, could blunt the reform strategy that resulted in the original compromise for FY 1978. Should the Administration desire to aid the disadvantaged, consideration should be given to Title I, ESEA where OMB is recommending an increase of $200 million in FY 1978.

Prefer Title I approach
Fed Impacted areas?

Department of Health, Education, and Welfare

1978 BUDGET REVISIONS
(In millions of dollars)

Higher Education Student Assistance
Office of Education

	1976 Actual	1977 Agency Recom.	1977 OMB Recom.	1977 Diff.	1978 Agency Recom.	1978 OMB Recom.	1978 Diff.
Basic Educational Opportunity Grants							
Budget authority	1,506	1,904	1,904	---	2,316	2,108	+208
Outlays	921	1,503	1,503	---	1,691	1,657	+34
National Direct Student Loans							
Budget authority	332	299	12	+287	303	15	+288
Outlays	292	334	319	+15	302	15	+287

Agency Recommendation:

Basic Educational Opportunity Grants. Increase the Basic Opportunity Grants program from $2,108 million to $2,316 million -- an increase of $208 million. This will increase the average award to over 2.5 million needy students by about $100 -- from $750 to $885 on the average. It will also increase the maximum award from $1,400 to $1,600. Since this program is forward funded, the outlay increase in fiscal year 1978 will be about $34 million.

National Direct Student Loans:

-- The additional $288 million requested would meet the minimum funding level prescribed in the law. Such action would have great credibility with the Congress and the higher education community, both of which have criticized the Executive Branch for several years now for "ignoring the law."

-- The additional amount would support 1,125,000 student loans, compared with 553,000 loans under the OMB recommendation. (Loans can still be made with the OMB recommendation, which does not provide any new capital contributions, because institutions can relend amounts from earlier loans which have been paid back.)

-- Funding the National Direct Student Loan program will help assure greater access to loan funds. Unfortunately, access to loans from the private sector, under the Guaranteed Student Loan program, has been highly erratic. Private lenders seem less willing to make student loans, and the loans that are made are not always available to students at particular institutions.

-- The budget strategy for several years now has been to rely on private sector lending under the Guaranteed Student Loan program. The Congress and the higher education community, however, have consistently rejected this approach because student loan demand has consistently exceeded supply and the Guaranteed Student Loan program has not been able to fill the gap.

OMB Recommendation:

Basic Educational Opportunity Grants. OMB recommends maintaining the budget guidance level of $2,108 million. The additional $208 million recommended by the Department will not increase the number of eligible students estimated to participate in the basic grant program. The additional funds would provide awards to middle-income students without creating incentives to attend more expensive schools of their choice. A middle-income student, for example, who attends a $2,000/year institution and who receives $200 from the basic grant program, will receive the same award whether attending a $2,000/year school or a $3,000/year school. Low income students will not receive as high an award under the OMB recommendation as they would under the Department's request. However, we do not believe the difference in average awards to the lowest income students ($1,126 versus $1,206 at the higher level) will prevent those students from obtaining access to a postsecondary education.

National Direct Student Loans. OMB recommends that no further capital contributions be made to the National Direct Student Loan program. There are $276 million available for relending from past Federal capital contributions to the National Direct Student Loan program. OMB believes that because average loans would be increased in the program, the number of additional loans would be increased to 840,000 as a result of the HEW proposal, not 1,125,000. In addition, the guaranteed Student Loan program helps to provide private loan capital to meet existing student demands for loans. Several newly enacted enriching provisions, such as increased special allowances that are paid to lenders, will increase the availability of loan capital from this source.

Artificial bankruptcies?

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SUMMARY REPORT ON REVISIONS TO THE 1978 BUDGET
(In millions of dollars)

			1977			1978		
		1976 Actual	January Budget	Agency Recom.	OMB Recom.	January Budget	Agency Recom.	OMB Recom.
Adjusted programs								
Medicare	BA	18,524	22,998	22,960	22,960	28,583	28,699	28,699
	O	17,779	21,773	21,991	21,991	24,297	25,622	25,422
National Institutes of Health (Biomedical research)	BA	2,248	2,463	2,463	2,463	2,022	2,510	2,510
	O	2,340	2,138	2,138	2,138	2,012	2,470	2,470
Elementary and Secondary Education	BA	2,409	2,713	2,713	2,713	2,635	3,074	2,924
	O	2,167	2,239	2,239	2,239	2,652	2,694	2,687
Impact Aid	BA	704	793	793	793	395	723	655
	O	599	847	847	847	496	724	672
Higher Education	BA	3,353	2,760	3,498	3,211	2,358	3,580	3,292
	O	2,455	3,088	3,147	3,132	2,364	3,092	2,805
Public Assistance	BA	17,241	19,266	19,266	19,266	20,901	21,582	21,332
	O	16,675	19,266	19,266	19,266	20,901	21,582	21,332
Old Age and Survivors and Disability Insurance Trust Funds	BA	70,682	81,005	80,828	80,828	90,172	88,904	88,904
	O	73,902	84,668	84,668	84,668	92,374	92,595	92,595
Aggregate of other adjusted programs	BA	5,839	6,561	6,601	6,601	6,683	6,483	6,275
	O	6,242	6,595	6,617	6,617	6,742	6,414	6,380
Subtotal, Adjusted programs	BA	121,000	138,559	139,122	138,835	153,749	155,555	154,591
	O	122,159	140,614	140,913	140,898	151,838	155,193	154,363

		1976 Actual	1977 January Budget	1977 Agency Recom.	1977 OMB Recom.	1978 January Budget	1978 Agency Recom.	1978 OMB Recom.
Non-adjusted programs								
Food and Drug Administration................	BA	209	253	253	253	279	279	279
	O	218	240	240	240	277	277	277
Occupational, vocational, and adult education................................	BA	673	1,131	1,131	1,131	675	675	675
	O	748	726	726	726	804	804	804
Student loan insurance fund.................	BA	202	32	32	32	281	281	281
	O	134	150	150	150	382	382	382
National Institute of Education............	BA	70	90	90	90	109	109	109
	O	69	89	89	89	94	94	94
Special benefits for disabled coal miners...	BA	1,000	962	962	962	968	968	968
	O	998	952	952	952	966	966	966
Supplemental security income................	BA	5,519	5,895	5,895	5,895	5,750	5,750	5,750
	O	5,058	5,369	5,369	5,369	5,714	5,714	5,714
Special Institutions........................	BA	122	146	146	146	163	163	163
	O	129	155	155	155	170	170	170
Aggregate of other non-adjusted programs....	BA	314	422	422	422	415	415	415
	O	230	633	633	633	423	423	423
Deductions for offsetting receipts..........	BA/O	- 1,265	- 1,366	- 1,366	- 1,366	- 1,627	- 1,627	- 1,627
Subtotal, Non-adjusted programs...........	BA	6,844	7,565	7,565	7,565	7,013	7,013	7,013
	O	6,319	6,948	6,948	6,948	7,203	7,203	7,203
Total, Department of Health, Education, and Welfare................................	BA	127,844	146,124	146,687	146,400	160,762	162,568	161,604
	O	128,478	147,562	147,846	147,846	159,041	162,396	161,566
Budget guidance, Department of Health, Education, and Welfare, excluding Work Incentives program................................	BA				146,272			160,637
	O				147,805			160,642